Bank of England
Report and accounts
1989

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Report and accounts for the year ended 28 February 1989

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Court of Directors

28 February 1989	Date of first appointment	Expiry date of current appointment
The Rt Hon Robert Leigh-Pemberton *Governor*	1 July 1983	30 June 1993
Sir George Blunden *Deputy Governor* *(First appointed to the Court 1 March 1976)*	1 January 1986	31 December 1990
Dr David Valentine Atterton CBE *(Non-executive Director, Marks & Spencer plc)*	1 March 1984	29 February 1992
The Hon Sir John Francis Harcourt Baring CVO *(Chairman, Baring Brothers & Co Ltd)*	1 March 1983	28 February 1991
Sir George Adrian Hayhurst Cadbury *(Chairman, Cadbury Schweppes plc)*	1 March 1970	28 February 1990
Frederick Brian Corby *(Chief Executive, Prudential Corporation plc)*	1 March 1985	28 February 1989
Sir Colin Ross Corness *(Chairman, Redland plc)*	1 March 1987	28 February 1991
John Stanton Flemming *(Executive Director)*	1 October 1988	29 February 1992
Edward Alan John George *(Executive Director)*	1 March 1982	28 February 1990
Sir Robert Haslam *(Chairman, British Coal)*	1 March 1985	28 February 1989
Sir Martin Wakefield Jacomb *(Chairman, Barclays de Zoete Wedd (Holdings) Ltd)*	19 May 1986	28 February 1991
Sir Hector Laing *(Chairman, United Biscuits (Holdings) plc)*	1 July 1973	28 February 1991
Gavin Harry Laird CBE *(General Secretary, Amalgamated Engineering Union)*	1 March 1986	28 February 1990
Anthony David Loehnis CMG *(Executive Director)*	1 March 1981	28 February 1989
Brian Quinn *(Executive Director)*	1 April 1988	29 February 1992
Sir David Gerald Scholey CBE *(Chairman, S G Warburg Group plc)*	1 March 1981	28 February 1990
David Alan Walker *(Chairman, Securities and Investments Board)*	1 March 1982	28 February 1989
Sir Leslie Clarence Young CBE *(Non-executive Director, National Westminster Bank plc)*	1 March 1986	29 February 1992

Mr Flemming was appointed a Director from 1 October 1988 to 29 February 1992 in place of Mr Deryk Vander Weyer, who resigned on 30 September.
The term of office of Mr Loehnis expired on 28 February: Mr Andrew Duncan Crockett was appointed in his place for a period of four years.
The terms of office of Mr Corby, Sir Robert Haslam and Mr Walker expired on 28 February; they were reappointed for a period of four years.

Associate Directors

Hugh Christopher Emlyn Harris (appointed 1 April 1988)
Pendarell Hugh Kent (appointed 1 May 1988)

G A Croughton: Secretary of the Bank

Organisation of the Bank:

March 1989

- **The Governor** — **The Deputy Governor**
  - **P H Kent** (Associate Director)
    - A W Jarvis (General Manager Printing Works) — *Printing Works*
    - T A Clark (Head of Division) — *Financial Markets and Institutions Division*
    - M T R Smith (Head of Division) — *Industrial Finance Division*
    - M E Hewitt (Senior Adviser)
  - **J P Charkham** (Adviser to the Governor)
  - **Brian Quinn** (Executive Director)
    - R A Barnes (Assistant Director, Head of Banking Supervision) — *Banking Supervision Division*
    - G M Gill (Chief of Banking Department and Chief Cashier) — *Banking Department*
  - **A L Coleby** (Monetary Adviser to the Governor)
  - **E A J George** (Executive Director)
    - W A Allen (Head of Division) — *Money Market Operations Division*
    - J C Townend (Head of Division) — *Wholesale Markets Supervision Division*
    - Ian Plenderleith (Assistant Director) — *Gilt-Edged Division*
    - M D K W Foot (Head of Division) — *Foreign Exchange Division*
    - J G Drake (Chief Registrar and Chief Accountant) — *Registrar's Department*
  - **J S Flemming** (Executive Director)
    - P A Bull (Head of Division) — *Financial Statistics Division*
    - C T Taylor (Head of Division) — *Economics Division*
    - P J Warland (Head of Division) — *Information Division*
  - John Bartlett (Auditor) — *Audit Division*
  - **A D Crockett** (Executive Director)
    - J E W Kirby (Head of Division) — *International Division (International Financial Institutions and Developing Countries)*
    - L D D Price (Head of Division) — *International Division (North America, Western Europe and Japan)*
    - A R Latter (Head of Division) — *International Division (Financial Markets, World Economy and Debt)*
  - **Sir Peter Petrie*** (Adviser to the Governor)
  - **H C E Harris** (Associate Director)
    - G A Croughton (Secretary of the Bank) — *Secretary's Division, Corporate Services*
    - G F J Everett (Head of Division) — *Premises Division, Corporate Services*
    - L G Lloyd (Head of Division) — *Management Services Division, Corporate Services*
    - J S Rumins (Head of Division) — *Finance and Resource Planning Division, Corporate Services*
    - D A Sharp (Head of Division) — *Personnel Division, Corporate Services*
    - Mrs Anne Skinner (Head of Division) — *Administration Division, Corporate Services*

* Appointed with effect from 4 April 1989.

Foreword

Although lacking such memorable events as the Big Bang or the equity market crash, 1988 was nevertheless an eventful year for the Bank, and in some respects a testing one.

The course of the real economy, and in particular the unexpected strength of domestic demand, necessitated a progressive tightening of monetary policy during the course of 1988; having fallen briefly as low as 7½% in May 1988, base rates increased on nine separate occasions to reach 13% in November. These decisions, taken against a background of sometimes conflicting indicators, were seldom straightforward; and the same has been true in the early part of 1989, when both downward and upward pressures on interest rates have been resisted. Maintaining the quality of our analysis and forecasting has seldom been more important.

Helping to formulate the Government's monetary policy is one important function of the Bank. Implementation of policy is another. Over this past year a new dimension has been added to our market operations by the emergence of continuing public sector surpluses, requiring substantial buying-in of Government debt. As well as conventional purchases through our market operations, we started a programme of reverse gilt auctions. Managing a programme of public sector debt reduction without undue disruption to the market has called for market skills of a high order. Another innovation, in the field of foreign exchange debt management, has been the ECU Treasury bill programme launched in the autumn. This has proved highly successful both in its own terms and as a means of enhancing London's international role.

The ECU is of course sometimes seen as the future currency of the European Community. Our ECU Treasury bill programme represents a genuine practical step towards the economic and monetary development of the European Community. So it was a timely reminder of the contribution the United Kingdom is making in this area against the background of the work of the Delors Committee on economic and monetary union, of which I was a member. The Committee's report was published in April 1989 and was, I think, helpful in emphasising the fundamental economic and political implications of monetary union. While the Committee felt able to sketch out the broad path that might eventually lead there, it did not feel able to set any timetable for the process, or to propose any early institutional steps. I believe that conclusion to have been the right one, and I very much welcomed the Committee's recognition that the internal market programme, the 1992 initiative, for all its great importance to European business life, was in no sense predicated upon progress towards monetary union.

But the 1992 initiative does mean that European matters will continue to gain in importance for all of us. The Bank has been closely involved over the year in the negotiation of key directives affecting the banking and financial services industries. In this context our experience with the new international agreement on convergence of bank capital standards, which came into effect last year, has been of immense benefit. More generally, with the support of the Associations represented on the City Liaison Committee, we have undertaken a wide survey of our financial institutions to gauge the City's awareness of and readiness for the single European market. In the main we have found the responses encouraging, but plainly the City's competitive position will need to be watched carefully in the years ahead.

One aspect of the City's performance which has concerned me is the state of some of our payment and settlement arrangements. It is important that these systems, the City's financial infrastructure so to speak, should keep pace with developments in the markets. During the year the Bank announced that it would develop a central depository and book-entry transfer system serving the wholesale money markets (the Central Moneymarkets Office), operating in parallel with our existing arrangements in the gilts market (the Central Gilts Office).

We need also to be sure that our supervision and regulation is adequate to ensure high prudential standards and fair dealing while not representing a needless burden on firms that operate here. Over the past two years the City has had to accustom itself to the requirements of the new Banking Act, as well as to the rules made by regulators under the Financial Services Act. Even the most innocuous new requirements can seem burdensome when they issue at such a speed. But we have now largely put in place our new regimes for banks and for the wholesale markets, and I believe that both should now enter into a more settled phase. The financial services regulators, meanwhile, are undertaking a welcome simplification of their arrangements at the initiative of the SIB under its new Chairman.

This review would not be complete without mention of a major event in the Bank's life, the opening of our new Museum by Her Majesty The Queen, accompanied by HRH The Duke of Edinburgh, in November 1988. We had been aware for some time of an unsatisfied interest in the Bank's affairs among members of the public in general and educational establishments in particular. The new Museum is the centrepiece of an effort to provide more information about our history and our work in an interesting and accessible way. I am pleased to report that since its opening the Museum has seen a steady increase in the stream of visitors.

This has been a busy year, and I judge it also to have been a successful one. The accounts which follow show a good financial performance; but that cannot be the full measure of the Bank's success, which depends on our skilful and efficient execution of all the tasks entrusted to us. This is made possible by the ability and dedication of our staff, who respond loyally to the demands made on them, often in rapidly changing circumstances. This is true in the Markets and Supervision Divisions; it is true among the analysts in the Economics, Financial Statistics and International Divisions, who have made so important a contribution this year to policy analysis; and it is true in the Departments which provide the technical support that enables our market operations to run as smoothly as they do. It is an especial but well deserved tribute to the Central Gilts Office that, at a time when all security settlement systems are under critical scrutiny, they provide a working model of dematerialised settlement with secured payments already embodied.

Turning to the Court of Directors, I was saddened by the retirement of Deryk Vander Weyer on grounds of ill health; his contribution to our work, especially in banking supervision, has been immense. He was a member of my committee on review of the banking supervisory system in 1985; and he was a founding member of the Board of Banking Supervision. His counsel will be much missed. Anthony Loehnis retired from Court at the end of February, after nine strenuous years spent in charge of the International Divisions. He has made a remarkable contribution to the Bank's international standing as well as to our work in general.

I am very pleased that David Walker, Brian Corby and Sir Robert Haslam have all been able to accept further terms of office. There are also three newcomers to Court. Brian Quinn has been appointed as Executive Director responsible for Banking Supervision, succeeding Rodney Galpin. John Flemming, who has been the Bank's senior economist since Christopher Dow retired in 1984, has joined the Court as an Executive Director; and Andrew Crockett, who left the Bank in 1974 to pursue a career at the IMF, has returned as Executive Director responsible for the International Divisions, succeeding Anthony Loehnis. At the same time, Sir Peter Petrie, who retired earlier this year as Her Majesty's Ambassador to Belgium, has joined the Bank as an Adviser to the Governor specialising in European affairs. Finally, Peter Cooke retired last year after having with great skill and persistence seen through the international agreement on bank capital standards. Not only the Bank, but the whole banking community, is indebted to him for this notable achievement.

The Bank of England is an unusual institution. It must understand commercial motivation, but can rarely itself be wholly commercial;

it must understand the best that the intellects of people in academia have to offer, yet must use that understanding in what are often highly political or everyday practical contexts; it must operate in fast-moving, sometimes irrational markets, yet must keep the aims of policy firmly in mind; at all times it must retain an integrity which is an example to the financial system, at times even at the expense of being considered naive by some. This will sound a formidable brief, but in this past year our staff have measured up to it with commendable effect and I am grateful to them for it.

Robin Leigh-Pemberton

Governor of the Bank of England

Report of the Court of Directors

The Court of Directors are pleased to present their report together with the audited accounts for the Banking and Issue Departments for the year ended 28 February 1989.

Results for the year

The Banking Department accounts for the year ended 28 February 1989 (which are shown on pages 19–31) show an operating profit of £86.0 million, compared with £66.5 million in 1987/88.

There are several exceptional items which in total increase profits by £51.2 million. These include £46.8 million of recoveries from subsidiaries acquired under support operations, which are discussed below. There was a significant release from provisions against other assets. Provisions totalling £14 million have been made in respect of the costs of relocating the Registrar's Department to Gloucester.

After allowance for a payment in lieu of dividend to Her Majesty's Treasury of £56.6 million (compared with £26.1 million in the previous year) and a tax charge of £13.1 million (1988 £14.3 million), the profit transferred to reserves amounts to £67.5 million, which compares with £26.1 million last year.

The accounts for the Issue Department (which are shown on page 32) show the profits of the Note Issue were £1,367.8 million compared with £1,390.8 million in 1987/88. These profits all accrue to the Treasury. In accordance with the Currency and Bank Notes Act 1928, the assets of the Issue Department comprise securities of an amount in value sufficient to cover the fiduciary note issue.

Activities

The Bank is the central bank of the United Kingdom. Reports on some of its operations and activities are given in the *Quarterly Bulletin* and in the Annual Report under the Banking Act. The *Quarterly Bulletin* regularly contains reports on the Operation of Monetary Policy and International Financial Developments. It also carries detailed articles on the Bank's operations and research. Major policy assessments are contained in the *Quarterly Bulletin* and in the published speeches of the Governors, Directors and Senior Officials. The report which follows covers activities of the Bank not otherwise reported on a regular basis.

The note issue

The value of the note issue was £14,112 million at the end of February 1989, £811 million (6.1%) larger than a year earlier.

Towards the end of 1988 it appeared likely that the annual peak in the note circulation, which occurs before Christmas, would exceed the existing statutory ceiling on the fiduciary issue of £16,500 million. Accordingly, at the Bank's request, HM Treasury directed, under the Currency Act 1983, that the limit be increased to £18,750 million. In the event the peak was £16,554 million.

Although the £10 note remains the most commonly issued denomination, the figures below reflect the increased use now being made of £20 notes by banks and building societies for issues through cash dispensers and automated teller machines.

Value of notes in circulation

£ millions

End-February	1986	1987	1988	1989
£1[a]	142	117	108	102
£5	2,225	2,029	1,896	1,646
£10	5,459	5,633	5,810	5,806
£20	2,310	2,608	2,932	3,654
£50	1,233	1,475	1,755	2,054
Other notes[b]	941	984	800	850
Total	**12,310**	**12,846**	**13,301**	**14,112**

(a) The £1 note ceased to be legal tender on 11 March 1988, but notes still in the hands of the public can be cashed at the Bank.

(b) Includes 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.

Number of new notes issued each year, by denomination

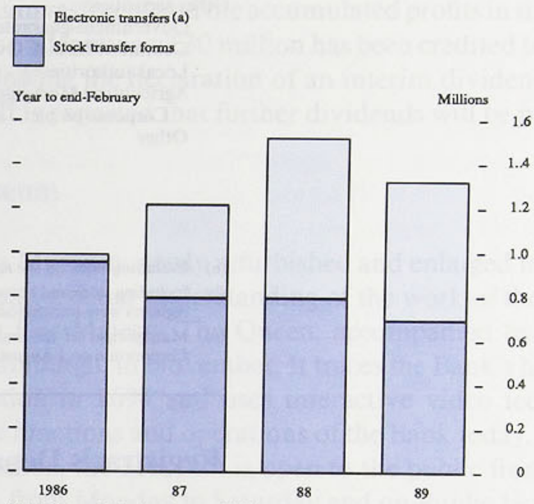
Millions

End-February	1986	1987	1988	1989
£5	522	457	449	475
£10	526	469	515	621
£20	122	78	113	165
£50	17	18	21	23
Total	**1,187**	**1,022**	**1,098**	**1,284**

Management of the stock registers

1,324,000 transfers of stock were registered in 1988/89, a fall of 13% on 1987/88. 631,000 transfers were effected through the Central Gilts Office, representing 48% of the total.

Transfers registered



(a) Facility available since January 1986.

The nominal value of British government securities managed by the Bank fell by £3,914 million (3%) to £135,648 million.

The fall in the amount of British government securities in market hands was substantially greater, reflecting net repayment of debt in line with the Government's full-fund policy. The difference arises because stock purchased from the market is currently held until maturity by the Issue Department of the Bank or by the Commissioners for the reduction of the National Debt for funds under their management. The Government is seeking powers in this year's Finance Bill to enable stock held by the Issue Department to be cancelled.

Other securities under management rose by £158 million to £3,074 million. The number of accounts fell by 9% to 1,807,000, of which 1,773,000 related to British government securities. The repayment of 3% British Transport Stock 1978/88 accounted for a fall of 5% in the number of accounts.

Securities in issue

£ millions nominal End-February	1987	1988	1989
British government securities:			
Stocks[a]	130,612	139,488	135,588
of which, index-linked	*11,517*	*12,662*	*13,016*
Bearer bonds	75	74	60
	130,687	139,562	135,648
Other securities:			
Government-guaranteed	10	10	10
Commonwealth & Overseas[b]	320	2,442	2,625
Local authorities[c]	143	117	112
Agricultural Mortgage Corporation plc	532	302	282
Other	45	45	45
	1,050	2,916	3,074
Total	**131,737**	**142,478**	**138,722**

(a) Excluding stock on the registers of the Bank of Ireland and the Department for National Savings.

(b) Including stock and bearer bonds of the European Investment Bank and other 'bulldog' stocks whose registers were transferred to the Bank in 1987.

(c) Management of the registers of two Liverpool Corporation Stocks was transferred back to the Corporation on 1 August 1988.

Registrar's Department relocation

The relocation of the Registrar's Department to Gloucester proceeds on schedule. Temporary accommodation has been acquired and part of the Department's work has been carried out there since April 1989. Planning permission has been obtained for a new building which is scheduled for completion in summer 1991 and into which all the Department's work will subsequently be transferred. The Central Gilts Office will remain in London as part of the Banking Department.

Support operations

In October 1988 the claim by *Minories Finance Ltd* (MFL) (formerly *Johnson Matthey Bankers Ltd)* against its former auditors, Arthur Young, was settled by a payment to the company of £25 million. The receipt of this sum and of MFL's continuing recoveries of provisions against loan losses brought the reserves of MFL at 31 December to £45.3 million. From these reserves MFL has declared dividends of £37.5 million to the Bank. These dividends have enabled the Bank to repay the full amount of £20.7 million which other banks and members of the London Bullion Market Association contributed to the indemnity given to MFL at the time of its rescue. In addition, £16.8 million of the Bank's own contribution of £20.8 million is covered by these dividends. The remaining £4 million is covered by the £7.8 million of reserves retained in MFL as at 31 December 1988. Since then MFL has increased its net assets and reserves through further debt recoveries.

In December 1988 agreement was reached with Britannia Arrow Holdings plc in relation to litigation which had been started against them by *Slater, Walker Ltd* (SWL), a company acquired by the Bank in 1977 as a consequence of a support operation begun in 1975. Following this settlement, the Bank has started the process of realising its investment and the accumulated profits in the company. In the year under review £30 million has been credited to the Bank's profits following the declaration of an interim dividend by SWL's directors. It is expected that further dividends will be paid.

The Museum

The Bank's Museum, newly refurbished and enlarged to enable the public to gain a better understanding of the work of the Bank, was opened by Her Majesty The Queen, accompanied by HRH The Duke of Edinburgh, in November. It traces the Bank's history since its foundation in 1694 and uses interactive video techniques to explain the functions and operations of the Bank today. During the summer season, the Museum is open to the public from 10.00 am to 6.00 pm from Monday to Saturday and on Public Holidays, and from 2.00 pm to 6.00 pm on Sundays. From October until Easter the Museum is closed at weekends. Special arrangements are available for organised parties, especially from schools.

Directors

The names of the members of Court are given on page 3 together with the dates of their first appointment and of the expiry of their current term. The principal outside appointments of the non-executive directors are also given. The areas of responsibility of the executive directors and the associate directors at 1 March are set out in the organogram on page 4.

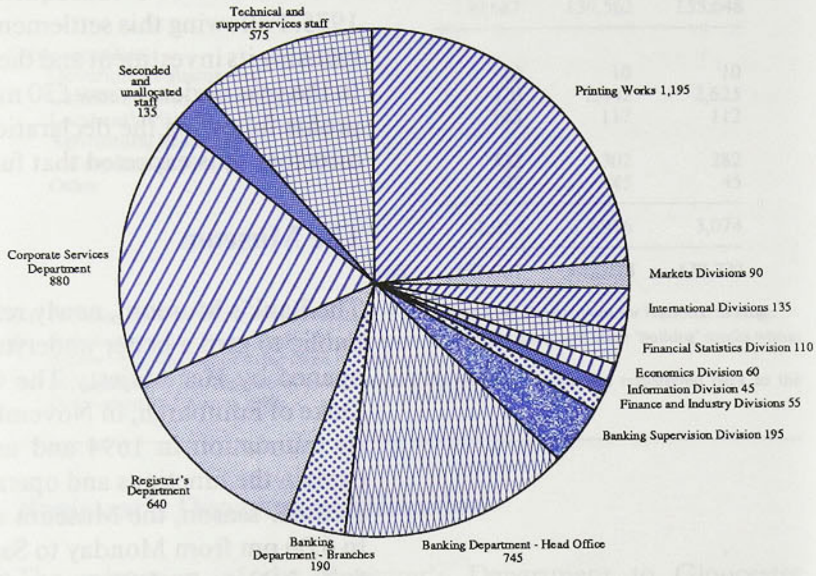
The current members of the Audit Committee are Sir David Scholey (chairman), Sir John Baring, Sir Colin Corness, Mr Crockett, Mr Flemming and Mr Laird.

Employees

The average number of persons employed by the Bank and its subsidiaries during the year was 5,407, of whom 5,186 were employed by the Bank. The aggregate remuneration was £87 million. In 1987/88, the average was 5,515 (of whom 5,296 were Bank staff) and aggregate remuneration was £82.4 million.

At 28 February 1989 the Bank employed 4,950 full-time and 205 part-time staff; of these, 290 full-time and 25 part-time staff were engaged on fixed-term contracts. The distribution of Bank staff at the year end is shown in the following chart (part-time staff are included as appropriate fractions).

Staff numbers at end-February 1989



595 staff left the Bank during the year. Of these, 199 were Banking Staff resignations, a slightly lower figure than in the previous year. A further 169 staff left under severance schemes. The net reduction of 90 continues to reflect a planned fall in numbers employed in the Bank's traditional activities as a consequence of technological advances, offset by further increases in those in supervision and information systems.

Changes in staff numbers

	1985/86	1986/87	1987/88	1988/89
Staff numbers at 1 March	5,470	5,320	5,370	5,245
Departures in year	505	520	730	595
Recruitment in year	350	555	595	500
Inward secondees in year	5	15	10	5
Staff numbers at end-February	5,320	5,370	5,245	5,155

The Bank has 19 members of staff on secondment overseas with central banks, international institutions, overseas governments and UK missions and a further 28 with UK organisations including the Panel on Takeovers and Mergers, the Securities and Investments Board and Government departments.

The Bank completed the second phase of a major restructuring exercise during 1988/89. This began in 1987 with the Banking Staff and continued in 1988/89 for the non-Banking Staff, including those involved in Data Processing; and negotiations with the Banking, Insurance and Finance Union resulted in the introduction of new salary structures for the staff groups concerned.

Employment policies

The Bank's policy on equal opportunities is to ensure that no job applicant or member of staff receives less favourable treatment on grounds of sex, marital status, colour, racial origin, religion or physical disability, or is disadvantaged by terms and conditions of service or requirements which cannot be shown to be justifiable. Disabled people, once employed, are offered special assistance wherever necessary.

The Bank has been through a period of considerable change and is therefore devoting significantly greater resources to the training and development of its staff. Particular developments during the past year have included the enhancement of graduate and management training programmes, the introduction of an accelerated training programme for selected non-graduates and of assessment centres as part of the promotion process, a distance learning project (including computer-based techniques with software designed in-house) to cover a range of skills, and various specialised training programmes in financial subjects and information technology. Members of staff continue to take part in external training and education programmes, including being sponsored for full-time and part-time MBA courses.

Steps have been taken to improve the flow of information within the Bank with a system of debriefings from meetings of the senior personnel committee and by the Deputy Governor on policy and operational topics. New procedures have been introduced for reviewing annually the key reponsibilities of senior officials and their staff and for setting annual objectives for them.

Community involvement and charitable donations

The Bank supports the following ventures:

Business in the Community
Spitalfields Community Job Link
Windsor Fellowship
Enterprise Agencies

Youth Training Scheme
A Business/Education Compact
Opportunities for the Disabled
Project Fullemploy
The Prince's Youth Business Trust
Project Trident

This support includes 14 secondments of Bank staff.

During the year the Bank contributed a total of £780,000 in support of its community programme, encompassing donations, sponsorships, secondments and other community-related activities. Of this figure £257,000 was given to over 300 charitable organisations and a further £290,000 was contributed to a variety of other causes in the UK such as research and academic organisations and enterprise agencies. The Bank has continued to match, on a £1 for £1 basis, donations made by staff and pensioners to registered charities under the Payroll Giving Scheme (Give As You Earn).