Bank of England
Report and accounts
1990

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Report and accounts for the year ended 28 February 1990

Issued by Order of the Court of Directors 17 May 1990

ISSN 0308-5279

*Printed in England by
Greenaways*

Court of Directors

1 March 1990

	Date of first appointment	Expiry date of current appointment
The Rt Hon Robert Leigh-Pemberton, *Governor*	1 July 1983	30 June 1993
Edward Alan John George, *Deputy Governor* *(First appointed to the Court 1 March 1982)*	1 March 1990	28 February 1995
Dr David Valentine Atterton CBE *(Non-executive Director, Marks & Spencer plc)*	1 March 1984	29 February 1992
The Hon Sir John Francis Harcourt Baring KCVO *(Non-executive Director, Baring Brothers & Co Ltd)*	1 March 1983	28 February 1991
Sir George Adrian Hayhurst Cadbury *(Chairman, PRONED)*	1 March 1970	28 February 1994
Anthony Laurie Coleby *(Executive Director)*	1 March 1990	28 February 1994
Sir Frederick Brian Corby *(Chief Executive, Prudential Corporation plc)*	1 March 1985	28 February 1993
Sir Colin Ross Corness *(Chairman, Redland plc)*	1 March 1987	28 February 1991
Andrew Duncan Crockett *(Executive Director)*	1 March 1989	28 February 1993
John Stanton Flemming *(Executive Director)*	1 October 1988	29 February 1992
Sir Robert Haslam *(Chairman, British Coal)*	1 March 1985	28 February 1993
Sir Martin Wakefield Jacomb *(Chairman, Barclays de Zoete Wedd (Holdings) Ltd)*	19 May 1986	28 February 1991
Professor Mervyn Allister King *(Professor of Economics, London School of Economics)*	1 March 1990	29 February 1992
Sir Hector Laing *(Chairman, United Biscuits (Holdings) Ltd)*	1 July 1973	28 February 1991
Gavin Harry Laird CBE *(General Secretary, Amalgamated Engineering Union)*	1 March 1986	28 February 1994
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 1994
David Alan Walker *(Chairman, Securities and Investments Board)*	1 March 1982	28 February 1993

Mr George was appointed Deputy Governor in place of Sir George Blunden who resigned on 28 February 1990. Mr Coleby was appointed a Director in place of Mr George. Sir Leslie Young resigned on 28 February before completing his term of office: Professor King was appointed in his place for a period of two years.

The terms of office of Sir Adrian Cadbury, Sir David Scholey and Mr Laird 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)

Ian Plenderleith (appointed 1 March 1990)

G A Croughton: Secretary of the Bank

Organisation of the Bank:

March 1990

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 and Head of Banking Supervision) — *Banking Supervision Division*
  - G M Gill (Chief of Banking Department and Chief Cashier) — *Banking Department*
- **A L Coleby** (Executive Director)
  - J C Townend* (Head of Division) — *Wholesale Markets Supervision Division*
- **Ian Plenderleith** (Associate Director)
  - W A Allen* (Head of Division) — *Gilt-Edged and Money Markets 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)
  - J R E Footman (Head of Division) — *Information Division*
  - C T Taylor* (Head of Division) — *Economics Division*
  - P A Bull (Head of Division) — *Financial Statistics Division*
- **Sir Peter Petrie** (Adviser to the Governor)
- **A D Crockett** (Executive Director)
  - J E W Kirby* (Head of Division) — *Developing World Division*
  - L D D Price* (Head of Division) — *European Division*
  - A R Latter (Head of Division) — *International Finance, Economy and Debt Division*
  - D W Green (Head of Division) — *North America and Japan Division*
  - John Bartlett* (Auditor) — *Audit Division*
- **H C E Harris** (Associate Director)
  - G A Croughton (Secretary of the Bank) — *Secretary's Division*
  - G F J Everett (Head of Division) — *Premises Division*
  - L G Lloyd (Head of Division) — *Management Services Division*
  - J S Rumins (Head of Division) — *Finance and Resource Planning Division*
  - D A Sharp (Head of Division) — *Personnel Division*
  - Mrs Anne Skinner (Head of Division) — *Administration Division*

* Later this year Mr D A Bridger will become Chief Registrar; Mr Oliver Page Head of Developing World Division; Mr J C Townend Head of Gilt-Edged and Money Markets Division; Mr W A Allen Head of Foreign Exchange Division; Mr M D K W Foot Head of European Division; Mr L D D Price Head of Economics Division; Mr C T Taylor a Special Adviser on European Monetary questions; Mr J S Beverly Head of Wholesale Markets Supervision Division; and Mr M J W Phillips the Auditor.

Foreword

1989 was a busy and eventful year for the Bank. At a technical level it was a successful one too, both in our supervision and in our market operations; and we are able to report a substantial improvement in our profits, and continuing recoveries from earlier support operations. This is all satisfactory so far as it goes, but I have to say that no central banker could regard as successful a year in which the value of money fell by as much as 8% in terms of what it will purchase at home, and by 10% in terms of overseas currencies. In that respect the year has been disappointing.

I referred in last year's report to the sharp tightening of monetary policy in 1988. This was designed to slow the growth of domestic demand and to curb inflationary pressures. Although those pressures have proved stubborn, we have seen clear evidence of adjustment in the economy, extending to asset prices as well as to consumer and corporate demand. Nevertheless, progress against inflation has been less rapid than expected and the underlying rate remains at an unacceptably high level. Short-term interest rates were increased further in 1989 to reach 15% by the end of the year, as the market background became distinctly less favourable. This environment has tested our determination as well as our technical skill. But I hope that neither can have been in any doubt; nor should there be any doubt about the importance I attach to bringing down inflation. Our future well-being depends on removing from everyday life the discontent which it purveys and from commercial decisions the uncertainty which it imposes.

I also referred in last year's report to the work of the Delors Committee on European Monetary Union which was published in April 1989. This has provided a focus for much further work, particularly since the agreement by the Heads of Government in Madrid to embark on Stage 1 of EMU in July 1990 and to prepare the ground for an Inter-Governmental Conference to consider aspects of full monetary union. An important part of Stage 1 will be an enhanced role for the Committee of European Central Bank Governors, of which I am a member. Our work in monitoring economic and financial developments in European countries, and on the development of the EMS, will take on increasing importance in the period ahead. In the meantime the Bank is involved, alongside the Government, in discussions about progress towards monetary union, and the institutional developments that might entail. These are complex issues on which, as I have said publicly on a number of occasions over the past year, it would be very wrong to force the pace. An Inter-Governmental Conference is due to meet before the end of this year to consider amendments to the Treaty. This will inevitably involve early discussion of such questions as the functions and powers of any eventual European Monetary Institution or Central Bank.

EMU was only one of a number of European issues to engage the Bank's attention over the past year. As in previous years, we have been closely involved in the negotiation of new European directives affecting banking and securities markets. The Second Banking Co-ordination Directive was adopted, enabling EC banks to provide services across EC frontiers. Underpinning this important legislation were further directives that owed much to the earlier work done in Basle on the convergence of bank capital requirements among the major industrial countries. Meanwhile parallel directives affecting securities business have been under active discussion.

The extent and range of the European questions now facing us has prompted an organisational change in the Bank—the creation of a new European Division. This Division will co-ordinate work on European developments (including those in East Europe and the countries of EFTA) as they affect the Bank's activities, covering both economic and monetary aspects as well as the various legislative developments. Among its tasks will be to keep the Bank fully informed on developments in Europe, and through cross-divisional committees to ensure that, despite greater complexity, our approach to European questions continues to be consistent and valid.

An effective approach to Europe depends not only on the actions of the Bank and the Government but on the City as a whole. Whatever the outlook for our monetary arrangements, the single European market presents great opportunities and challenges to our commercial institutions and to the City itself in expanding business over the wider Continental field while keeping ahead of the rapid developments in other financial centres. Our approach to European questions is therefore matched by a new framework similarly designed to ensure internal co-ordination of strategic analysis and policy on City issues. The focus is on the future competitiveness of the City.

During the year we completed and published the results of a detailed study on the future of London as an international financial centre. By and large we concluded that there were grounds for confidence, but that there were a number of areas where our arrangements and facilities needed to be further developed and improved. Some are more within the Bank's power to address than others. One aspect that is plainly important is the payments and settlements infrastructure. Last year I recorded that, alongside the Central Gilts Office, we planned to establish a Central Money Markets Office to provide custody and settlement facilities in money-market instruments. This project is on course for completion by the end of 1990. Also during the year, I encouraged the banks to embark on a review of the efficiency and risks in our wholesale payments system. This is now being examined further by APACS, and we have submitted a paper to them. Again this was the product of much detailed work within the Bank.

The end of the Bank's accounting year sees, as usual, changes on the Court. Sir Leslie Young retired after four years' service to the Bank, and I have been very grateful to him for the insights he has provided both as an industrialist and as a banker. He is succeeded by Professor Mervyn King, of the London School of Economics. I am very pleased that Sir Adrian Cadbury, Sir David Scholey and Gavin Laird have all been able to accept further terms of office. Tony Coleby has also joined the Court as an Executive Director, having previously been Chief Monetary Adviser. He becomes Home Finance Director as Eddie George moves to his new role as Deputy Governor.

This brings me to perhaps the most notable change in the Bank this year—the retirement after forty-three years' service of Sir George Blunden. His latter years as Deputy Governor crowned a career that had already officially finished in 1984 when he retired as an Executive Director and became a Non-Executive Director on the Court. He became Deputy Governor in 1986 on Sir Kit McMahon's departure to Midland Bank—a difficult time for the Bank, and with great changes ahead in the City. No one knew the Bank as he did; few could match his judgement of people and events. During his long career, and especially since becoming a Director in 1976, he has been both a reformer of the Bank and an upholder of its traditions. I am happy to record here our great debt to him.

A review such as this can inevitably touch only on the exceptional and the outstanding, and will overlook the great mass of day-to-day work that goes forward in a large institution like the Bank. Much of what we do is unseen and unsung, for in central banking the absence of disaster is sometimes the only measure of success. But however we measure our achievements, they are made possible only by the imagination, initiative, judgement and sheer hard work of the Bank's staff. Those qualities have been much in evidence over this past year, and I would like to express once again my gratitude for this dedication and loyalty.

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 1990.

Results of the year

The Banking Department accounts for the year ended 28 February 1990 (which are shown on pages 17–29) show an operating profit of £108.6 million, compared with £86.0 million in 1988/89. The prevailing high interest rates have benefited the Bank's income but this has been offset in part by the resulting losses on the Bank's gilts portfolio.

Certain exceptional items serve to increase the profit for the year by £56.8 million. In August, the Bank sold its long-standing investment in Portals Holdings PLC. Portals are suppliers of bank note paper to the Printing Works, and the shareholding, equivalent at the time of the disposal to 26% of the company's issued capital, was originally taken in order to safeguard those supplies. However it was clear to the Court that this objective could now be secured in other ways, and that such a large holding in what had become a diversified public company was inappropriate for a central bank. The disposal resulted in a profit before tax of £41.8 million. The profit for the year has also benefited from dividends of £15.0 million from Minories Finance Limited which, as Johnson Matthey Bankers, was acquired in 1984 as part of a support operation. This and other support operations are discussed below.

After a payment in lieu of dividend to Her Majesty's Treasury of £72.8 million (compared with £56.6 million in the previous year) and a tax charge of £17.2 million (1989 £13.1 million), the profit transferred to reserves amounts to £75.4 million, which compares with £67.5 million last year.

The accounts for the Issue Department (which are shown on page 30) show that the profits of the Note Issue were £1,905.2 million, compared with £1,367.8 million in 1988/89. These profits are all payable to the Treasury. In accordance with the Currency and Bank Note 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. As such, its principal responsibilities lie in the formulation and execution of monetary policy, and in banking and other financial supervision. The Bank's monetary policy operations are described fully in successive issues of the *Quarterly Bulletin;* and a full account of our banking supervision is given in the Annual Report under the Banking Act, published alongside this Report. Periodic assessments of policy, and detailed articles on the Bank's operations and research, are contained in the *Quarterly Bulletin* and in the published speeches of the Governors, Directors and Senior Officials. This report therefore covers only those activities of the Bank that are not otherwise reported on a regular basis.

The note issue

The value of the note issue was £15,021 million at the end of February 1990, £909 million (6.4%) larger than a year earlier. The annual seasonal peak in the note circulation, which occurs immediately before Christmas, was £17,564 million.

Value of notes in circulation

£ millions

End-February	1987	1988	1989	1990
£1[(a)]	117	108	102	62
£5	2,029	1,896	1,646	1,539
£10[(a)]	5,633	5,810	5,806	5,866
£20	2,608	2,932	3,654	4,380
£50	1,475	1,755	2,054	2,292
Other notes[(b)]	984	800	850	882
Total	**12,846**	**13,301**	**14,112**	**15,021**

(a) Figures for the years 1987 to 1989 include £38 million of £1 and £13 million of £10 Series 'C' notes still unpresented. These were written out of the circulation figures on 1 June 1989, in accordance with the terms of the Currency Act 1983. Those notes can, however, be cashed by the public upon presentation to the Bank without limit as to time.

(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 issues.

The £10 note remains the most commonly issued denomination. Of the other denominations, usage of £20 notes (particularly by banks and building societies for issue through cash dispensers and automated teller machines) continues to grow rapidly, while that of £5 notes continues to decline; indeed, £5 notes now account for only about 10% of the total value of notes in circulation.

Number of new notes issued each year, by denomination

Millions

End-February	1987	1988	1989	1990
£5	457	449	475	424
£10	469	515	621	627
£20	78	113	165	194
£50	18	21	23	22
Total	**1,022**	**1,098**	**1,284**	**1,267**

On 7 June 1990 a new series of Bank notes—'Series E'—will be launched. The first note will be for £5, and other denominations will be issued over the next four years.

Last year has been marked at the Printing Works not only by preparation for the new series, but also by the start of a major programme of re-equipping. A new fleet of Giori sheet printing machines was installed and is now in production.

Management of the stock registers

1,044,000 transfers of stock were registered in 1989/90, a fall of 21% on 1988/89. 487,000 transfers were effected through the Central Gilts Office, representing 47% of the total (compared with 48% in 1987/88 and 1988/89).

Transfers registered

Thousands

Year to end-February	1987	1988	1989	1990
Stock transfer forms	792	793	693	557
Electronic transfers through CGO	427	728	631	487
	1,219	1,521	1,324	1,044

The nominal value of British government securities managed by the Bank fell by 11% to £120,319 million, but the total of other securities under management rose by 21% to £3,714 million. The number of accounts fell by 9% to 1,637,000 of which 1,607,000 related to British government securities.

The fall in the total of British government securities under management largely reflected the total of maturities during the year (and no new issuance), but also reflected the cancellation in December 1989 of £4.5 billion of stock previously purchased by the Bank and held in the Issue Department.

Three conversion offers were made in 1989/90 to holders of certain British government securities (following the announcement of an experimental conversion offer by the then Chancellor of the Exchequer in his speech at the Mansion House in October). On each occasion over 90% of the stock concerned was converted into a larger issue of a similar maturity.

Securities in issue under management at the Bank of England

£ millions nominal End-February	1988	1989	1990
British government securities:			
Stocks	139,488	135,588	120,268
of which, index-linked	*12,662*	*13,016*	*12,548*
Bearer bonds	74	60	51
	139,562	135,648	120,319
Other securities:			
Government-guaranteed	10	10	240
Commonwealth & Overseas	2,442	2,625	3,144
Local authorities	117	112	106
Agricultural Mortgage Corporation plc	302	282	179
Other	45	45	45
	2,916	3,074	3,714
Total	**142,478**	**138,722**	**124,033**

Registrar's Department relocation

The relocation of the Registrar's Department to Gloucester continues on schedule. An increasing amount of the Department's work has been carried out there since April 1989 and by the end of the year more than a third of the staff were in Gloucester. The new building is scheduled for completion in the Spring of 1991 and by the end of that summer all the Department's work will be carried out in Gloucester.

Support operations

The support operations entered into by the Bank in previous years have continued to progress satisfactorily during the year.

Minories Finance Limited (MFL), formerly *Johnson Matthey Bankers Limited*, has continued to realise its remaining assets and has declared dividends of £15 million, equivalent to its surplus for the year to 31 December 1989. MFL's aggregate dividends to date, received by the Bank, now amount to £52.5 million from which £20.7 million was paid in 1988 to those banks and members of the London Bullion Market Association who contributed to the indemnity given to MFL, repaying their contributions in full. The Bank has retained the balance of £31.8 million from MFL's dividend covering its own contribution of £20.8 million to the indemnity with the remaining £11 million set against the Bank's costs. Since its year-end of 31 December 1989 the company has continued to increase its net assets and reserves through further debt recoveries and by earnings on monetary assets.

Slater, Walker Limited, a subsidiary acquired through support operations in the 1970s, was placed in members' voluntary liquidation during the year. It is expected that the proceeds of the liquidation will exceed the value at which the investment in the company stands in the Bank's books.

The Museum and public information

Last year's report referred to the opening of the Bank's Museum in November 1988, and during its first year the Museum received just under 100,000 visitors. Two special exhibitions have been held, and in the early summer there will be a further exhibition in connection with the issue of the new Series E £5 Bank note.

Full use has been made by schools and other educational bodies of the facilities offered by the Museum, and the Bank's Information Division has developed a range of material describing the Bank's functions and policies for use by economics teachers in schools.

Directors

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

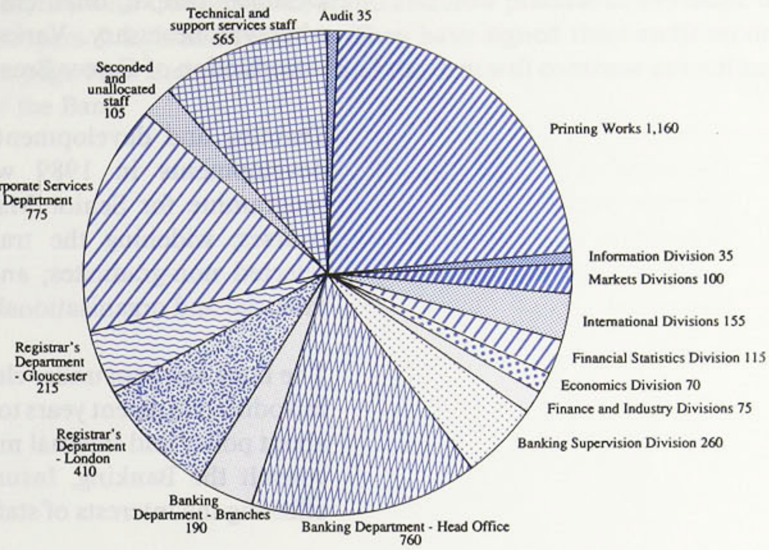
The current members of the Audit Committee are Sir David Scholey (Chairman), Sir John Baring, Sir Brian Corby, Mr Laird, Sir Colin Corness, Mr Flemming and Mr Crockett.

Employees

The average number of persons employed by the Bank and its subsidiaries during the year was 5,380, of whom 5,170 were employed by the Bank. The aggregate remuneration was £96 million. In 1988/89 the average was 5,407 (of which 5,186 were Bank staff) and aggregate remuneration was £87 million.

At 28 February 1990 the Bank employed 4,905 full-time and 235 part-time staff; of these, 265 full-time and 50 part-time staff were engaged on fixed-term contracts. The distribution at the year-end is shown in the following chart (part-time staff are included as appropriate fractions).

Staff numbers at end-February 1990



Support staff have been included in the areas in which they are working.

575 staff left the Bank during the year. Of these, 211 were Banking Staff resignations, a slightly higher figure than in the previous year; a further 142 staff left under severance schemes.

Changes in staff numbers

	1986/87	1987/88	1988/89	1989/90
Staff numbers at 1 March	5,320	5,370	5,245	5,155
Departures in year	520	730	595	575
Recruitment in year	555	595	500	550
Inward secondees in year	15	10	5	10
Staff numbers at end-February	5,370	5,245	5,155	5,140

21 members of the Bank's staff are on secondment overseas with other central banks, governments, international institutions and UK missions. A further 30 are with UK organisations such as the Panel on Takeovers and Mergers, the Securities and Investments Board and Government departments. In addition 3 members of staff are on full-time study leave. There are also 14 secondees into the Bank from other UK and overseas organisations.

Employment policies

The Bank is an equal opportunities employer and ensures 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. Various additional initiatives, such as the introduction of Career Breaks, are under discussion.

Training and development of staff remains a priority. Notable developments in 1989 were the introduction of a training programme for Senior Management; the provision of language courses; widening the training programme for graduates and selected non-graduates; and expanded seminar programmes on financial and organisational topics.

The Bank has kept under close review the effectiveness of measures introduced in recent years to improve the flow of information to staff about policy and internal management matters. It has continued to consult the Banking, Insurance and Finance Union on matters affecting the interests of staff.

Community involvement and charitable donations

The Bank continues to support 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
Fullemploy Group
The Prince's Youth Business Trust
Project Trident

During the year the Bank contributed a total of £976,000 in donations, sponsorships and other community-related activities. Of this figure, £597,000 represented the cost of secondments in the community, of which there were 13 at end-February. £257,000 was given to charitable organisations, including payments on a £1 for £1 basis matching donations made by staff and pensioners under the Payroll Giving Scheme (Give As You Earn).