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THE BANK OF ENGLAND

A PROPOSAL FOR A REVISED DIRECTING STRUCTURE

1. The Bank is a complex organisation with a wide range of functions. It is a central Bank advising on and executing domestic and external policy and contributing to the formulation of economic policy generally. It is concerned with the efficiency and reliability of the financial system and the financial institutions within it; this includes a wide range of regulatory functions. It has developed functions related to the needs of industry. It is a manufacturer and distributor of Bank notes and a provider to the public of banking services and stock registration services. It is the central administrator of Exchange Control.

2. These functions have developed over time and the present structure of the Bank reflects the history of that development. This accounts for a number of untypical features. For over two hundred years the Bank was directed by a Court, whose members could be described as an oligarchy. Each member of the Court accepted the obligation to serve his term for two years as Deputy Governor and then a further two years as Governor. The central banking function progressively developed over the centuries and was largely reserved to the Court. The management of the Bank was left to its permanent staff, of whom the Chief Cashier became the acknowledged head. Significant changes occurred in the 1930s by which time the functions performed by the Bank had substantially increased, the Governorship had become (de facto but not de jure) of longer term than two years, and additional higher level appointments had been

found to be necessary in order to help the Governor and his Deputy to carry the burden. The post of Comptroller, as a kind of General Manager, was introduced in 1918 and continued until 1931. The Comptroller (all three of whom were previously Chief Cashier) was not a Director but attended both Court and Committee of Treasury. At the time of the last Comptroller the duties were to consider Advances, Branches, Audits and Establishment questions and to read and approve the correspondence of the Governors and the Central Banking Office, and to attend Committees. The post was not filled after the Peacock Report of 1932.

3. The Peacock Committee of 1932 recommended that the Governors required "more continuous assistance.....from persons possessing the authority which attaches to the position of a Director. We believe that the appointment of a considerable number of Executive Directors giving their whole time to the affairs of the Bank would tend to diminish the influence of the other members of the Court and to diminish living contact with the commerce and trade of the country. But having said this we believe that two appointments should be made as soon as the right men are available; one, of a Director familiar with Money Market conditions and free from outside commitments who should give his whole time to the Bank and should be an additional ex-officio Member of the Committee of Treasury; the other, of one who should give such time as may be necessary to matters relating to the domestic organisation and should be ex-officio Chairman of the Staff Committee." This was the origin of the Executive Directors as members of the Court and the number eventually grew to four, which was about as many as was felt consistent with avoiding the domination of Court discussion by a bureaucracy. The Bank of England Act 1946 enshrined

the concept and the limitation of number "Not more than four of the directors may be employed to give their services exclusively to the Bank".

4. The Executive Directors however have not been consistently integrated into the management structure of the Bank, even though one of the posts recommended by the Peacock Committee was clearly managerial in character. There is a tendency to regard their role as that of policy co-ordinators without managerial responsibilities. This is unusual in business organisations and it is not surprising that McKinsey and Co. criticised it when they reported on the organisation of the Bank in 1969. Their original proposal for giving the Executive Directors an executive control over Heads of Departments was not acceptable to the then Governor and was modified when their report was finally presented. But the final version still recommended that "Executive Directors should exercise effective supervision over major policy decisions, departmental budgets, initiation of new programmes and selected senior staff appointments". "The aim should be to move towards this objective of direct executive responsibilities [for Executive Directors] gradually and flexibly."

5. The McKinsey recommendations aimed at reducing the number of posts directly reporting to the Governors were not implemented. Other proposals in their report for introducing a budgetary control system, for upgrading some of the personnel functions and for assigning formal line responsibility for the support service departments to the Executive Director, Administration were largely implemented. But some coordinating responsibilities for personnel, e.g., management succession, were left with the Chief Cashier.

6. There is a general feeling in the Bank that responsibilities within the present management structure are unclear and that this frequently leads to delays in decision making and a misdirection of the efforts of higher management. The problem which McKinseys saw as too many posts reporting directly to the Governors has become more serious because the amount of overseas absence by the Governor has become unavoidably greater. The main objectives of any organisational change must be to reduce the administrative burden on the Governor by simplifying the management structure and providing a clearer definition of responsibilities and delegations.

7. There is a considerable body of support in the higher levels of the Bank for the proposition that the work of the Bank at present can be divided into three categories. The first category is the central banking function including the principal functions of the Governor, the three Executive Directors concerned with Home Finance, Overseas and Economic policy, part of the Chief Cashier's Department, and the relevant support services. The second category is the more routine business including the Accountant's Department, the Printing Works, the Branches, the operation of Exchange Control, the Issue Office, the Drawing Office etc.; business in fact embracing a substantial proportion of the Bank's staff. The third category includes the support services of Administration and Establishments. It is suggested that there would be considerable relief for the Governor if he need no longer be involved in category two and category three responsibilities, except for issues of major importance. There is not however agreement about how best this might be achieved.

8. An important but sensitive aspect of the present organisation concerns the role of the Executive Directors. As mentioned above these are clearly in the line of command for policy coordination

but not for management questions whether affecting staff or budgets. There is a prevailing view that the organisation of work and allocation of resources should be left to Heads of Department and should not be the concern of Executive Directors at all. Those who hold this opinion would prefer to clarify the organisational responsibility by underlining the limitation of the role of Executive Directors. This would make their role analogous to that of Ministers in Whitehall who are not expected to interfere in the organisation of Departments but leave this entirely to the Permanent Secretaries. While the relevance of the Whitehall analogue to the Bank may appear to be remote, it is the case that the Executive Directorships in the Bank are filled from time to time by direct recruitment from outside, just as a Minister comes into a Department from outside, and that those without previous experience in an organisation are not well fitted to accept responsibility for the executive management of its business or the deployment and development of its staff.

9. Nonetheless, I believe that the Bank would find an organisation in which the line of command ran through Executive Directors to areas for which they were responsible for both policy and general management more satisfactory in the long run. This does not mean that Executive Directors should concern themselves with a great deal of detailed administration. They would normally delegate the detailed running of the Departments for which they took executive responsibility to their subordinates who, if this was the only change, would be the Head of Department, the DEOs and Budget Centre chiefs. But they would be responsible to the Governors for the efficiency of their areas of command; they would have the power to interfere if the work was not organised to their

satisfaction and they would be consulted about work priorities, organisational changes and movements of key staff. There is already an approach to this in some areas of the Bank and where it does the proposal would amount to a formalisation of the position. This change could be made without any other change in the organisation of the Bank but I do not think that on its own it would be either sufficient or satisfactory.

10. Were the structure of Executive Directors and Heads of Department retained, the latter as a general rule, ought to be capable of deputising for Executive Directors in matters affecting the Departments under their command and future appointments should have this in mind. It is not in general satisfactory to have a Head of Department who is not regarded as capable of acting as a policy deputy or a policy deputy who is not capable of organising work under his command. An inevitable consequence of infringing this principle is over-lavish staffing and an excessive circulation of paper.

11. I turn next to the number of posts in the Directing level below the Governors. The Bank view that it is bound by the Second Schedule of the Bank of England Act 1946 to have no more than four Executive Directors has had a considerable influence on the management structure. What the Schedule says is "Not more than four of the directors may be employed to give their exclusive services to the Bank". The Charter of the same year says "The Court of Directors may from time to time engage the exclusive services of Directors, in number not exceeding four at any time, for a period not exceeding the unexpired portion of their respective terms of office. Such directors shall be called and known by the name of Executive Directors, or by such name as the Court may from time to time determine."

12. An outside observer might think it paradoxical that the organisation of the Bank should continue to be materially influenced by provisions relating to the Court whose role in relation to the policy work of the Bank as a central bank has been so heavily circumscribed, especially as three of the four Executive Directors are working on central banking functions and at present do not possess executive responsibilities. I do not believe that the Bank Act need have such a restrictive effect on organisation. It should be possible for the Bank to create as many posts as it needs at a hierarchical level corresponding to the present Executive Directors without an amendment of the Act. A possibility worth considering for the future is that if the Bank requires more posts at this level than four it should create the posts required and select four of the officers concerned to be members of the Court. This selection could be by job function or by seniority. To avoid the apparent difficulty that a full-time member of the staff loses security to take up a four year appointment as an Executive Director I suggest that Executive Directors appointed to the Court from within the Bank should retain their existing permanent employee status and receive the standard Directors fee (at present £500 a year) for their services on the Court. It may be desirable to find an appropriate new title for those of permanent director level who are not members of the Court. Such changes would make it easier to develop the kind of organisational structure required.

13. Even if there need be no limit to the number of Directors it would not in my view be desirable to try to divide the work of the Bank into a number of self-contained areas each under the direction of a single Executive Director for all purposes; it would be even less desirable if the Executive Director posts were

limited to four carrying their present policy ranges. Such a division would involve splitting some existing Departments, notably support functions like EID, in a way which would not be conducive to efficiency or economy. An alternative principle which has been suggested for distributing functions would be to create one reporting channel for routine operations and a separate channel for policy and key functions; this could be effected to a degree but would not be without disadvantages.

14. The structural problem is greater for the policy making areas of the Bank, so it is convenient to consider first the organisation for dealing with the staffing and administration of the Bank. As the Bank's staff are one of its most important resources the changes made in the early 1970s of strengthening the responsibilities and organisation of the personnel function should be carried to their logical conclusion. The Executive Director Administration should take the lead in all staffing and personnel functions. The existing functions of the Chief Cashier in relation to succession planning should be transferred to the Executive Director Administration, including the chairing of the committee (at present the Heads of Department Committee) which considers senior appointments and succession planning. Other Executive Directors should be entitled to attend this committee if they wish. The Governors should decide which senior appointments they wish to be consulted about and to assist them should receive annual reports on the potential of those staff who are under consideration for succession to senior posts.



15. In order to integrate the managerial responsibilities of line management with those of the centralised Establishment and Administration Departments the Bank requires a Management Committee meeting approximately monthly and nominally chaired by the Governor, though normally chaired by the Deputy Governor.

16. It is considerably more difficult to define acceptable areas of management responsibility for Executive Directors in the policy areas of the Bank, largely because no policy area can be entirely self-contained. I now return to the question raised in paragraph 13 - whether the application of the principle that Executive Directors should be clearly in the line of command for policy and management can be made effective without a major alteration in the structure of existing Departments in the Bank, having regard to the spread of responsibilities of the Economic Intelligence Department and of the Chief Cashier's Department.

17. The Economic Intelligence Department provides, inter alia, a service to three Executive Directors and to the Chief Cashier. Broadly speaking the External Policy Section of the Economics Division and the External Statistics Section of the Financial Statistics Division serve the Overseas Director, the Monetary Policy Section of the Economics Division and the Domestic Statistics Section of the Financial Statistics Division serve the Home Director and the Chief Cashier and the Economics and Fiscal Policy Section of the Economics Division serve the Economics Director. The Industry Section works through the Department Head to the Adviser to the Governor (Sir Henry Benson). This does not of course describe all the relations of the Department within the Bank but it serves to illustrate what would be involved in trying to create straightforward management lines of command for Executive Directors as proposed in the McKinsey Report.

18. There are several organisational changes which could be proposed if the principle<sup>al</sup> objective was a simple management structure. One possibility would be to split the Economic Intelligence Department into sections serving individual Executive Directors, i.e., corresponding more or less to the way a great deal of policy work is organised. This would in my view have many disadvantages, including the high probability of an increased duplication of work because policy areas are not self-contained. Another possibility would be to regard the Economics Director as in direct management command of EID. This could probably be done without detriment to the service given by EID to other Executive Directors, but a disadvantage is that unless the managerial responsibility were largely nominal it could absorb too much of the time of the Economic Director. I believe that despite the fact that it rules out a simple management structure and correspondingly simple organisation chart, the Economic Intelligence Department should both remain as a unit and not be in direct line of management command of any one of the existing Executive Director posts. That would mean that the line of authority would have to be defined in a different way.

19. Because the Economic Intelligence Department's functions are not executive but that of a support service, the managerial responsibility for it is concerned with the organisation of its resources to provide their optimum utilisation as a service, of which personnel management is an important component. This has to be carried out in such a way as to satisfy the recipients of that service and cannot be successfully conducted without consultation. This is especially important when movements of key people are involved. While I would have one senior person in managerial control of the Department as a whole, it

should be his responsibility to consult Executive Directors served by the Economic Intelligence Department about any significant changes likely to affect the service to them. If he is unable to persuade them of any changes proposed and still believes that it is desirable to pursue the matter, reference should be made to the Executive Director Administration. (If my more radical solution for the creation of an entirely different Directing line were accepted, the Director in charge of EID would refer to the Deputy Governor in the event of a difficulty of this kind).

20. It has been suggested to me that there would be substantial staff economies to be derived from combining the Overseas Department with the Economic Intelligence Department, since the present arrangements stimulate a certain amount of duplication of effort. There is some force in this argument but I do not think that it is possible to decide on the merits of the argument until agreement has been reached on the general organisational structure. Were it carried out it would be likely to have two consequences. The first is that it would make the task of Managing the Economic Intelligence Department a very big job indeed and with such a spread of subject matter no one could expect to maintain an active role in all the policy issues. The second is that it would inevitably diminish to some extent the control which the Executive Director Overseas could have over the staff who serve him and would require optimum personal relationships between all concerned.

21. The Chief Cashier's Department embraces a wide range of executive functions as well as key policy functions. I believe that staffing responsibilities (paragraph 14) and banking supervision (paragraph 22) should be moved elsewhere. Some of the other executive functions are routine in character and throw up comparatively little work to higher levels. As mentioned in paragraph 13, it has been suggested that such functions could be

separated and report through different channels. Because these are functions which are a significant source of contact between the Bank and market institutions I have hesitated before recommending such a split. It is not desirable for the Bank to make too sharp a distinction between its policy makers and its operators; both derive potential strength from a close association. But I believe that a separation of routine functions could enable a more radical redefinition of responsibilities for the more important functions in the central monetary area which would reduce the burden on the Governor.

22. Banking Supervision is at present rather loosely connected with the Chief Cashier's Department. I consider that this should be organisationally independent. Although it is essential that operating sectors of the Bank should regularly feed the Supervisory Sector with information and hunches derived from market experiences, it is equally essential that the Supervisory function should be clearly seen to be exercised with judicial principles and not operating convenience in mind. I think that there is a strong case for bringing together under a single head the whole range of the Bank's supervisory work, thus marking this even more distinctly as a separate functional activity. The Head of this Department should have sufficient standing for his decisions to be accepted with the minimum of appeal to the Governors and should accept direct responsibility to them and to the Court.

23. If only the moderate changes recommended in paragraphs 14 and 24 were implemented the main structure of the Chief Cashier's Department would remain intact. This would still cover a wide range of operating functions and of responsibilities, the successful discharge of which will require extensive delegation. The line of command for the routine functions should normally terminate with

the Deputy Governor. But the proposal I endorse in paragraph 21 would place the routine functions under a single Deputy Chief Cashier (or Deputy Director) who would refer on the comparatively few occasions when upward reference was necessary direct to the Deputy Governor; this would fundamentally change existing arrangements.

24. The division of functions between the posts of Chief Cashier and Executive Director Home appears to have depended more upon the holders of these posts than on any clearly defined scheme of things. At times the Executive Director has barely had an adequate role, though this is less likely so long as so much emphasis is placed on monetary policy. The present division of functions which makes the Executive Director mainly a policy adviser with the greater part of operational activity undertaken by the Chief Cashier independently of the Executive Director (provided it is within the framework of policy) appears to be entirely acceptable to the two present holders of the posts, neither of whom would wish to change it. But the fact that a satisfactory division of functions depends so much on the personalities concerned implies that there is always a potential problem when new appointments are made. Moreover, as indicated throughout, I do not think that it is satisfactory for Executive Directors to be regarded as purely policy advisers but the extent to which an individual Executive Director wishes to delegate either policy or management functions in order to concentrate on what he regards as his most important work should be left to him to decide, so long as it is clear that he remains responsible to the Governor for his entire range of duties. It would be preferable to find some other term than Executive Director for a senior adviser or policy coordinator who is not intended to have managerial responsibility.

25. A general redefinition of the role of Executive Directors and their relationship to Heads of Departments could take effect if so desired without a major structural change. But the significant volume of senior retirements from the Bank in the next few years could be utilised to facilitate a more extensive series of changes. Instead of the Bank being organised round a series of Departments grouped together into areas of Executive Director responsibility, it could be organised into a series of Divisions each under a Director, the title "Head of Department" being dropped altogether and replaced by the title Deputy Director. This would require more than four Director posts, even if some of the existing Executive Director posts ceased to be held by Directors. If I am correct in my comments in paragraphs 10-12, it would be possible to create more than four directors as such, and if a few senior advisory posts retained the word "Director" in their title although they had no managerial duties, on the grounds that the title conveys status, this would not matter. It would however be desirable to have titles which would distinguish Directors with managerial functions from those who were purely advisers; there might also be a desire to distinguish the four "Court" directors.

26. This more substantial alteration of the management hierarchy would more clearly define the nature of the line of command and enable some unnecessary stages in the management chain to be eliminated. It could well provide a better structure of employment units for staff management purposes. But it would need great care and sensitivity in implementation as it is likely to be seen by many Bank staff as reducing their career expectations. This would be neither the intention nor the necessary result of such a change. But the view that Heads of Department posts are career posts but Executive Director posts may not be will undoubtedly tend to colour attitudes.

27. were the Bank to be organised with more emphasis on "Directors" rather than "Departments", it is highly likely that the directing jobs would differ in weight though perhaps not in status. The Bank's comparative freedom on the salary front (except when governmental incomes policies are in operation) would enable it to mark such differences by differentials, if it so chose. There is, however, quite a good case for "broad-banding" rather than over-concern for small differences where senior posts are concerned; duties can then be adjusted as circumstances change.

28. A possible reorganisation on to a "Directions" basis is illustrated the Annex. This embodies the major changes at the centre discussed in paragraphs 21 to 23 and in effect replaces the Chief Cashier by a single new Executive Director post in charge of the application of monetary policy and of money market operations. He would also be the Director most in touch with the City. I have not included an advisory post at Director level on monetary policy, though this would be for discussion; I believe that the advisory function could in the longer term be discharged by an appropriately senior adviser in the Economic Intelligence Department. The more routine banking functions (Drawing Office, Securities Office, Bill Office, etc.) are separated and made the responsibility of a Deputy Director reporting to the Deputy Governor. An organisational structure of this kind would eliminate all doubt about the nature of the lines of command. The suppression of the concept "Head of Department" has more than symbolic significance, but by the same token the change would need careful handling with senior staff.

29. On the basis that the term "Executive Director" should be reserved for Directors with managerial responsibilities, Policy Director or Policy Coordinator are possible terms for other Directors. Other titles which might be acceptable for those with managerial

responsibilities are Director General, Managing Director, Comptroller or Assistant Governor. There is no very convenient way of distinguishing the four Directors who would be serving on the Court as Court Director is not an attractive title.

30. I believe that the unification of the structure of senior posts on such lines would reveal that the Bank has more levels of responsibility than it needs, that these levels are insufficiently differentiated and that in some areas a reduction in the number of senior or intermediate posts is called for. Thus, I think it likely that what I have called the Administrative Division would not need more than a Director and two Deputy Directors. Similarly I would think it possible to achieve some post reductions if the scope of the Economic Intelligence Division was enlarged to include a large part of the Overseas Department (para.20). I have not, however, investigated these possibilities in detail and these propositions must be regarded as tentative.

31. The area of responsibility of the Executive Director Overseas would include exchange rate policy and exchange control policy and the Deputy Directors or Assistant Directors in charge of such operations would form part of his policy team. There should be a Deputy Director reporting to the Executive Director Overseas who is capable of deputising fully for him in his absence.

32 The purpose of redefining the role of Executive Directors is to simplify the line of command below the Governors. But if the excessive burden on the Governor is to be reduced two other conditions are necessary. The first is the maximum possible amount of delegation combined with appropriate accountability of responsibility: delegation should not be abdication. The second is that the executive role of the Deputy Governor should be enhanced. There should be no need for the Governor to involve



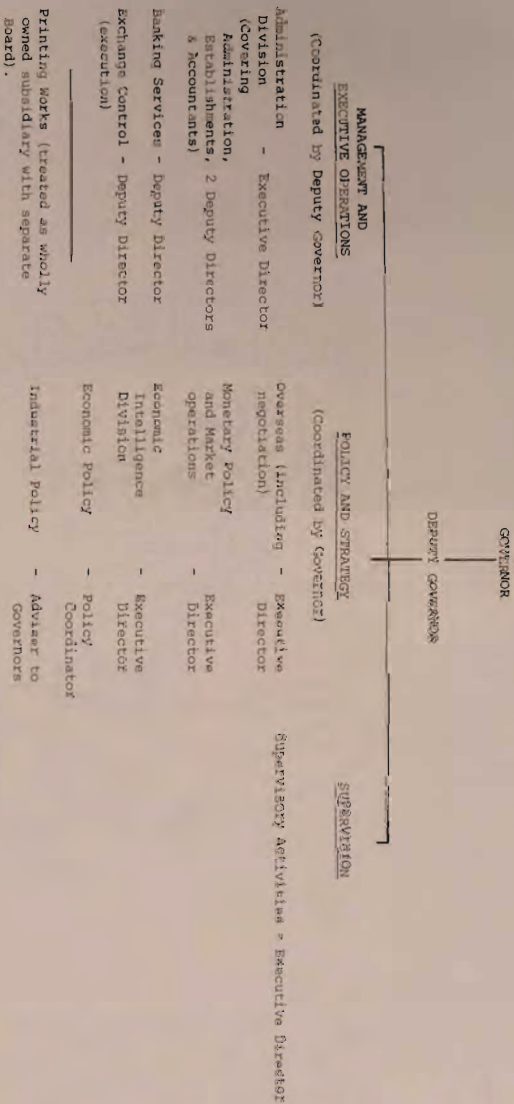
himself in the day-to-day administration of the routine functions of the Bank or with establishment or resource questions, other than those of a most major character. Indeed most administrative and routine issues ought to be capable of being dealt with below Deputy Governor level. For instance now that the system of budgetary control is established the budgetary operation should be supervised by the Executive Director Administration with the Deputy Governor involved only with more important or sensitive issues.

33. It would be important that the Deputy Governor should not allow himself to become too immersed in administrative detail. The Bank's policy work requires an acknowledged leader in the absence of the Governor. Without this the Bank will not always be as prepared as it ought to be to deal with issues of general economic strategy arising in Whitehall. A general policy committee meeting frequently (at least weekly) under the Governor, but continuing to meet when he is absent, seems necessary. It is desirable that the Governor should have someone who can deputise fully for him as policy coordinator. It is natural for this to fall to the Deputy Governor but the total work load on the Deputy Governor may prove to be too large. It may be necessary to contemplate that either the task of administrative coordination or that of policy coordination should be earmarked for a separate individual, say a senior Director. But I suggest that a start is made with the Deputy Governor performing both roles.

34. Organisational change of the kind discussed in this report would, I believe, considerably ease the burden on the Governor, but there are other ways of easing the burden which need to be considered. The Governor at present takes most of the burden of public speaking in order to put the views of the Bank across. It is desirable that the senior levels of the Bank should include at least one other person who is a good public speaker, and accepted

as a spokesman, so that useful invitations to speak can be accepted without adding to the Governor's commitments. Another way in which the Governor can be helped is by the standing of his private office. The Governor's private office, despite the dedication of its staff, compares unfavourably in its standing within the Bank with the office of even a junior Minister or senior civil servant in a government department. I understand that there has been some resistance to the concept that the private office should accept more of the responsibility for communication between the Governor and the rest of the Bank on the grounds that this will interpose a barrier between them. From my experience of the other system, I see no reason why a more substantial role for the private office should have such an effect, provided that the Governor's personal accessibility to his subordinates is no less free than now. Indeed relieving the Governor of some of his burdens could remove the main real impediment to that accessibility, the shortage of available time.

20th April 1979.



[Stock registration might also be considered for "living off" ]