

The Court of Directors

Summary box: An overview of Court's remit

Court's remit is set by the Bank of England Act 1998 and elaborated on in 'Matters Reserved to Court'.¹

Court manages the affairs of the Bank as a corporation, while specific policy responsibilities (relating to monetary policy, financial stability and prudential regulation) are reserved to the Bank's policy committees.

In summary, Court sets the organisation's strategy and budget. It takes key decisions on resourcing and the Bank's most senior appointments. Court has overall responsibility for the current and future operational effectiveness of the Bank. It has a particular focus on financial management and controls as well as the setting of the Bank's strategic objectives. Court approves the Bank's risk tolerance framework and its frameworks for monitoring and managing risk, including those pertaining to the Bank's balance sheet. It assesses the Bank's skills and operational capability as well as its culture. Court approves key staff policies, including those pertaining to ethics and conflicts of interest.

The governance framework of the Bank of England

Since 1998, the Bank of England's powers – and its relationship with HM Treasury (HMT) – have increasingly been placed upon a statutory footing. As such, the Bank now operates within a detailed statutory framework set by Parliament. The broad intent underlying this framework is to ensure that the Bank is free from day-to-day political influence in carrying out its statutory functions. The framework is sophisticated in its design. It varies depending on the precise functions being exercised by the Bank. At a high level, the framework operates by Parliament setting statutory objectives for the Bank and then granting the Bank operational independence to pursue those objectives. Principally, this is through its three main statutory policy committees: the Monetary Policy committee (MPC), the Financial Policy Committee (FPC) and Prudential Regulatory committee (PRC).

While specific policy responsibilities are reserved to the statutory policy committees, the Court of Directors (Court) manages the affairs of the Bank as a corporation. Court's responsibilities include determining the Bank's objectives and strategy and ensuring the effective discharge of the Bank's functions and the most efficient use of its resources. Court delegates to the Governor the day-to-day management of the Bank, including the discharge of statutory functions, while reserving certain key decisions to itself.

The Interaction Between Court and the Bank's Policy Committees

Court is required to keep under review the Bank's performance in relation to its objectives, the exercise of the Bank's statutory functions and the processes of the policy committees, whose meetings the members of Court are entitled to attend as observers.

Court, consulting HMT, is required, at least every three years, to review and if necessary, revise the Bank's strategy in relation to the Financial Stability Objective. This function may be delegated and Court has delegated this to the FPC. The PRA's strategy is set by the PRC in consultation with Court. The PRC is responsible for the adoption of the PRA's budget with the approval of Court.²

It is supported by an Independent Evaluation Office (IEO) in this regard, which conducts in-depth evaluations. The IEO reports directly to the Chair of Court, who sets the IEO's remit and work programme, typically in consultation with other Court Directors. Court may also commission external performance reviews (including, retrospectively, into policy decisions); and it has responsibility for monitoring the Bank's response to recommendations arising from such reviews.

Accountability

The Bank is accountable to Parliament. As Court is a key component in the Bank's governance framework, it gives evidence to Parliamentary Committees to explain the decisions that it takes. For example, the Chair of Court appears before the Treasury Committee to give evidence on their appointment. Both the Treasury Committee and Public Accounts Committee hold hearings with Members of Court to discuss its work.

Court must publish the minutes of its meetings. These are published, as required by statute, six weeks after the meeting to which they relate, or, if there is no further meeting within that period, then two weeks after the date of the next meeting.

The Bank's Annual Report and Accounts includes a foreword from the Chair, which provides an overview of the Court's key priorities over the past year. This publication also includes more in-depth reports from the Court and its sub-Committees.

Composition of Court

Court is a unitary Board including both Executive and Non-Executive Directors. Court is comprised of five Executive members – the Governor and four Deputy Governors; the Bank's COO also attends each meeting. And, up to nine non-Executive members. There are currently eight Non-Executive Directors, including the Chair. The ninth position is due to be filled later this year. All members of Court are appointed by the Crown on the advice of the Prime Minister and Chancellor.

The Governor serves on Court for a (non-renewable) period of eight years, the Deputy Governors for (a renewable) period of five years, and the non-executive members for (a renewable) period of four years.

The Role of the Non-Executive Directors

Within this framework of collective accountability, the Chair and fellow Non-Executive Directors act as a vital source of independent challenge. The Non-Executive Directors of Court help to ensure that the Bank maintains its operational independence at all times.

² In accordance with the 1998 Act the Deputy Governor for Prudential Regulation is responsible for preparing drafts of the prudential regulation strategy and PRA budget for consideration by the PRC (and Court).

Certain Court Non-Executive Directors have specific responsibilities under the Senior Managers Regime. For example, the Chair and Senior Independent Director as well as the Chairs of the Audit and Risk Committee and the Remuneration Committee.³

The sub-Committees of Court

Court meets a minimum of seven times a year. In addition to meetings of the full Court of Directors, Court also has several sub-committees, each tasked with specific responsibilities for helping to manage the work of the Bank.

There are three standing sub-Committees of Court. These are: the Audit and Risk Committee, the Remuneration Committee and the Nominations Committee. The Nominations Committees' remit has recently been expanded to include matters relating to the Bank's culture, including a focus on Diversity Equity & Inclusion (DE&I).

The Transactions Committee meets on an ad hoc basis, to advise the Governor on transactions that are outside the Bank's usual course of business, such as the use of the Bank's balance sheet for new facilities.

The Oversight functions of Court

Since 2016 Court has operated as a unitary board. Prior to this, and since the financial crisis, Court had operated as two statutory Boards – Court and the "Oversight Committee". The Oversight Committee was solely comprised of Non-Executive Members and charged with various oversight functions. In a simplification of the structure, the Oversight Committee was abolished by the Bank of England and Financial Services Act 2016.

Today the functions of management and statutory oversight functions are vested in Court as a single governing body. The Non-Executives retain the right to meet separately from the Executive and commission reviews independently.

The Chair's priorities

David Roberts, the Chair of Court, set out his priorities for Court in his testimony to the Treasury Committee.⁴ In summary, these are to ensure:

- Court exercises its oversight function, to ensure that the Bank delivers against its core mandate;
- the Bank has the right capability, culture, and resources to fulfil its mandate and objectives, now and in the future;
- the Bank's technology and operations are transformed;
- oversight of the Bank as an effective steward of public money.

³ The Bank of England voluntarily applies the Senior Managers Regime to itself.

⁴ <https://www.bankofengland.co.uk/-/media/boe/files/about/people/david-roberts/david-roberts-questionnaire-2022>