

MEETING OF THE COURT OF DIRECTORS

Tuesday, 13 November 2018

Present:

Mr Fried, Chairman

The Governor

Mr Broadbent, Deputy Governor – Monetary Policy

Sir Jon Cunliffe, Deputy Governor – Financial Stability

Sir David Ramsden, Deputy Governor – Markets & Banking

Mr Woods, Deputy Governor – Prudential Regulation

Ms Glover

Baroness Harding

Ms Noble

Mr Prentis

Mr Robert

Ms Thompson

In attendance:

Ms Place, Chief Operating Officer

Secretary:

Mr Footman

1. Minutes and Matters Arising

The minutes of the meeting held on 21 September were approved.

There were no conflicts declared in relation to the present agenda.

Court noted Andy Haldane's appointment as Chair of the Government's new Industrial Strategy Council. Mr Broadbent said that there was no conflict with Mr Haldane's responsibilities at the Bank, and the MPC was content with the appointment.

Ms Place advised Court that Mr Pereira, the Bank's Executive Director for Finance, had decided to retire at the end of the year.

2. ARCo update

Ms Thompson reported on the October meeting of ARCo. The Committee had discussed preparation for the transfer of the Term Funding Scheme from BEAPFF to the Bank ahead of the capital increase. It had also discussed KPMG's audit plan, and the Finance Director's proposals for enhanced disclosure of policy costs funded by CRDs in the 2019 Accounts.

Under Risk, the Committee had taken reports on Compliance (now moving into the new Risk directorate) and Anti-Money Laundering processes.

3. RemCo update

Baroness Harding said that RemCo had received an update on the annual staff pay review, considered the external benchmarks for Executive Director remuneration, and reviewed the Bank's pension offering.

4. NAO Report on Central Services Strategy (Rommel Pereira, Stephen Brown and Paula Lawless)

Ms Place reported on the clearance process for the NAO report, due to be published in December. Final sign-off was expected on 12 December and the report was due for publication on 19 December.

5. Travel and Expenses (Rommel Pereira, Dominic Whittle and Ed Dew)

Mr Pereira and Mr Dew presented the conclusions of the review of the Bank's Travel and Expenses policy. This had been commissioned by the Chair of Court following questions raised at his Treasury Committee hearing in June, confirmed in his letter to the Committee Chair on 13 July. The review had been supported by an internal steering group including the Chair, Ms Noble and the internal auditor.

Mr Dew said that the objective of the review was to ensure that the policy was clear and consistent so that it could be easily applied to all Bank staff; that it was in line with the approach of other UK public institutions; and that it provided a realistic balance of value-for-money against staff wellbeing and safety.

The review found the Bank's policy to be in line with other UK public authorities, broadly in the middle of the pack and closely comparable to that of HM Treasury. It also found a high level of compliance with the policy. In some areas there was room to tighten financial limits – meal allowance, hotel costs – and to improve controls and reporting. The new policy would be published and it was also proposed to increase the number of senior staff whose expenses were routinely published, to include Executive Directors as well as Governors and Policy Committee

members, and to improve the detail and clarity of those releases. It was proposed that an annual report on the operation of the policy should come to Court.

Court was content with the revised policy and agreed that it should be published.

6. HR Update

(Lea Paterson and Julie Crowther)

Annual Pay Review

Ms Paterson said that following negotiations with Unite and a ballot of their members, agreement had been reached on a 2.25% award, to be allocated on a performance related basis and with 1% of this directed to correcting pay anomalies. A further £500 lump sum would be paid to all staff earning less than £40,000. Ms Thompson asked whether the Bank had considered a multi-year pay agreement as part of a long-term strategy. It was agreed that this would be considered by RemCo.

Diversity and Inclusion Quarterly Update

Ms Paterson said that a major focus for HR was progress on diversity and inclusion across the Bank. There was good progress to report on female representation to which senior level (Scale C+) had reached 31%. The 2020 target of 35% looked challenging, but achievable with continued focus and effort. A continued focus was BAME diversity. Below senior management, the Bank was close to its 2020 target of 20% BAME representation. BAME representation in senior management was around 5%. Retention rates were being addressed – the BAME resignation rate was above that for the Bank as a whole. Sentiment surveys had tended to be less favourable among BAME than non-BAME colleagues.

The Governor said that on every metric there was BAME under-representation in the organisation and it required a step change in approach. Affinity groups were not enough – the problem would not solve itself and there needed to be advances on multiple fronts.

Baroness Harding said that the problem was common to many organisations: there was no simple solution; it needed to be tackled on all fronts. Firms that were doing that would tend to have more diversity on boards as well. Mr Prentis agreed and asked about quitting rates and what exit interviews showed. Ms Paterson said no clear theme emerged from those. Ms Noble

suggested there may be merit in an external organisation doing exit interviews, that these could be conducted around three months after departure, and that they could ask about the whole experience of working in the Bank. Mr Woods suggested benchmarking against similar organisations – HMT, the Cabinet Office, FCA. Sir Dave Ramsden highlighted other dimensions to diversity – LGBT and disability, to name two – and the important work of networks and of Court, GovCo and EDCo demonstrating visible support for the diversity and inclusion agenda.

The Chair and the Governor asked for a BAME action plan to be brought back to Court.

Bullying

Ms Paterson said that the Bank had recently published data showing 21 cases of bullying/harassment in the period 2014-18. At one level these numbers were small: but against the background of a zero tolerance policy and the possibility of under-reporting they were unacceptable. A cross-Bank group had been formed to support the promotion of better leadership behaviours, to raise awareness of the Bank’s policy and to strengthen reporting mechanisms.

7. Objectives, Strategy and Budget

(Rommel Pereira, Rebecca Jackson, Joanne Fleming and Rob Thompson)

(a) Strategic goals and priorities

Ms Jackson set out the strategic priorities for 2019/20 that Govco were recommending to Court.

The work on the implications of interest rates being “lower for longer” would come to a natural end in the spring. To find further space for the 2019/20 priorities within a flat nominal budget Governors had discussed a programme of de-prioritisations. These included a number of investment projects that had been deferred in order to accelerate migration to the new data centres (agenda item 12 below).

The Governor added that process had been long and thorough. It was not a series of trade-offs – the aim had been to put resources where they were needed. The initiatives would be reflected in the budget proposals, which would be brought to Court in December.

(b) Financial Performance Review

Mr Thompson outlined the Bank's present financial position. In the seven months to September profits were running ahead of forecast owing to higher income from market movements and a small spending shortfall. Headcount was running slightly below the cap. The latest forecast for full year spending was that it would be in line with the budget.

8. Enhanced Reporting on Annual Accounts

(Rommel Pereira and Liam Waters)

Mr Waters set out proposals for enhanced reporting of the sources and uses of income from CRD deposits, following enactment of the 2018 CRD scheme and in light of the MoU with HM Treasury.

The statement would be provided in the Financial Review section of the Annual Report and would show the income earned from investing cash ratio deposits and a fuller breakdown of the unremunerated policy costs that CRD income was supposed to cover. He confirmed that this would include those policy costs of the FMI function that were not covered by the new FMI levy. The attribution of costs would be by policy area not by type of spending.

From 2019/20 onwards (following receipt of the capital injection in March 2019) the Bank would also disclose its level of loss absorbing capital.

Court was content with these proposals.

9. RTGS Renewal Business Plan

(Victoria Cleland, Rob Elsey, Nick Lodge and Mike Owen)

Mr Robert, as Chair of Court's RTGS Renewal Committee (RRC), said that the Committee's first meeting had been productive. There had been a full discussion of the status of the project and the risks. The procurement strategy and business case had been agreed for proposal to Court, taking account of comments from the FMI Board and Govco. The financial costs remained uncertain and were likely to remain so for some time, but were a reasonable estimate given the available information and stage in the Programme. At this stage the team was seeking

Court's approval of the business case, the next tranche of funding, an overall budget envelope and the procurement strategy.

Court was content to approve the budget envelope and for the project to proceed to the procurement stage under the guidance of the RRC.

10. Brexit Contingency Planning

(Laura Wallis, Grellan McGrath and Alex Holmes)

Ms Wallis said that while political negotiations continued the Bank remained focussed on planning for "no deal". There had been significant progress in that the Temporary Permissions Regime had been approved and other no-deal SIs were working through Parliament. No-deal technical notices had been issued to institutions, and the Bank/PRA published a consultation in October, including the proposed use of broad powers to delay on-shoring changes. Preparations had been made for market disruption and bank liquidity positions were being monitored. The annual stress test results would give an indication of domestic banks' capacity to withstand shocks and continue supporting the domestic economy. The Governor commented that no-deal would be a shock to the system but the financial sector would not be amplifying it.

11. PRC Update

Mr Woods commented on the contribution that the PRA was making to Bank-wide de-prioritisation – including through the winding down of the ring-fencing project.

12. Data Centre Migration Programme

(Rob Elsey and Neal Semikin)

Mr Elsey briefed Court on the proposal to re-order the migration phase of the programme so that the most critical systems would move 12 months earlier than previously planned, and the work that would be delayed because of that change.

13. Middle Office Systems Review (MOSR)

(Andrew Hauser, Sue Docker and James Goodfellow)

Court approved a further £955,000 funding to complete the MOSR project.

14. Committee Conflicts Update
(John Footman)

Court noted an update of the Committee Conflicts registers.

15. Papers for Information

Court noted:

- MPC Update
- Six-monthly Risk Report
- Update on Our Code Attestation.

The meeting of Court was closed.