

MEETING OF THE COURT OF DIRECTORS

Tuesday, 12 February 2019

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 10 December 2018 were approved.

Further to the discussion on the staff survey, Ms Place said that it had been decided to continue this on an annual basis, supplemented by “pulse” surveys as necessary.

The Chair reported that the process to recruit two new non-executive Court members was about to start; and Ms Place reported that the search for the new CFO was proceeding.

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

2. ARCo Update

Ms Thompson reported on the ARCo meeting held in January. The Committee had agreed improvements to the presentation of the annual accounts – enhancing clarity rather than changing content – and had reviewed the progress of KPMG’s audit. The Committee had also

reviewed risks managed in the IEO and the Secretary's Department, and had received a good update from the new head of Risk.

3. RemCo Update

Baroness Harding said that the Committee had met in January and agreed the annual remuneration changes for the Governors, the COO, and the policy committee members; and remuneration and performance awards for the executive directors.

4. Central Services Transformation

(a) Update on One Bank Service Transformation (OBST) (Jonathan Curtiss and Angela Durnin)

Ms Place said that the OBST project aimed at the simplification and automation of key processes across HR, Finance and procurement. One integrated system would replace approximately 25 systems or processes, and would deliver improvements in employee data, process automation and management information.

Ms Durnin said that since the last update to Court change across CS, which included this programme, had been confirmed as a strategic priority for the Bank and the NAO had recognised its importance. The procurement strategy for OBST had been approved and preparatory work had started, including in-house consultation and communication. Court approval of the Systems Integrator contract would be sought in due course.

Court members noted the business benefits of the programme. Several had implemented and used integrated systems, and strongly supported their introduction in the Bank. Furthermore they strongly advised that the Bank, while consulting widely on the changes, should not unduly customise the product for individual area needs.

Baroness Harding commented that the programme was not just about central services – it was a corporate change programme that would require large-scale changes in business practices across the Bank. She cautioned against assuming colleagues could easily absorb changes to the way they work. A self-serve environment moved the burden to users and would require detailed preparation beyond just “selling the message”. Ms Durnin and Mr Curtiss said that business engagement had already started; a cross-Bank programme board had been formed; the plans

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included significant levels of training and familiarisation for users. Reassuringly the systems that the team were looking at worked well in other organisations.

Ms Thompson understood the motivation for drawing business areas into the programme board but noted that it had become as a consequence quite large: it would be important for the programme to be driven by a much smaller design authority. Mr Robert and Ms Glover recognised the concern about size but equally the need to find ways of ensuring sufficient engagement, understanding and challenge from the business. The Governor suggested a small programme board supplemented by a consultative group drawn from business leads.

(b) Update on Data Centre Migration Project
(Rob Elsey and Neal Semikin)

Mr Elsey updated Court on the programme to migrate Bank systems onto a more resilient architecture. Contracts had been signed and fit-out of the new centres had already started: the first migration, of lower risk systems, would start in July. The aim was to migrate most systems by February 2020, though this depended on using half of the available weekend change windows and was thus vulnerable to unforeseen priority changes. Ms Thompson said that ARCo would be reviewing the risks around the migration at a future meeting.

(c) Update on Procurement
(Dominic Whittle)

Mr Whittle reported progress implementing the new procurement operating model that had been approved by EDCo in July 2018, and reinforcing compliance standards in the light of the 2018 Audit Report. The new policy would be formally introduced in March but elements were already in force. Consulting procurement was mandatory for purchases over £25,000. A new head of procurement had been recruited, and a stronger supporting team. Commercial boards had been established for Technology and facilities management; training had been introduced, and non-compliance would be treated as matter of individual staff conduct.

(d) Property Strategy
(Dominic Whittle)

Further to Court's discussion on 10 December, Ms Place summarised the work required to make the best use of the Bank's London premises. In order to meet the commitment of a

desk/person ratio of 0.85:1 by February 2020, refurbishments were necessary to modernise the remaining 10 zones in Threadneedle Street, and re-configure office space across the building to reduce the number of desks and extend collaborative work places and facilities. The ‘swing space’ this refurbishment created would enable the Bank to begin a longer term essential infrastructure works programme in Threadneedle Street to ensure that the building remained fit for purpose, including heating and cooling systems, air circulation and asbestos removal. This infrastructure work would take around five years to complete.

Court was content with the proposed strategy.

(e) Future of the Bank’s Sports Club

(Jonathan Curtiss, Dominic Whittle, Rob Thompson and Gill Hammond)

Court considered options for the future of the Bank Sports Club, currently based around the Sports Centre at Roehampton. Only 13% of the Bank’s staff were members, and only 4% played in Bank sports teams. The Roehampton site as a whole broke even on a cash basis, but the Sports Centre itself, although also open to members paying a commercial rate, made a loss of £0.5mn in 2018, on spending of £3.4mn. It was in need of significant investment, which the Bank could not justify within its budget priorities. Members noted that the Roehampton facility was not ideally located and did not play a big part in attracting and retaining staff.

Three options were considered: to retain the dedicated facility at Roehampton, to offer staff membership at another organisation, or to create a new Bank Sports and Social Club that would not depend on a dedicated sports centre. Court saw the last of these as most attractive: it would give the club flexibility to develop an offering that suited a wider cross-section of staff, and enable the Bank to lease the Roehampton property to an organisation better placed to develop and manage it.

5. The Bank’s Finances – budget 2019/20 and the 2018/19 dividend

(Rob Thomson and Vijay Shah)

Rob Thompson (acting finance director) outlined the Bank’s financial results for 2018/19. Favourable income trends, including mark-to-market gains on FX reserves and the fixed term deposit book, had combined with flat costs to give a larger than expected pre-tax profit, of £113mn. Staffing at the year-end was running below the headcount cap. For 2019/20 the

Governors were proposing a cost budget of £645mn. Within that, note production, RTGS renewal and a provision for pension contributions accounted for £174mn. The remainder was subject to the “flat nominal” cap. The final pension cost would be determined by the level of corporate bond and gilt yields on 28 February. Investment costs on a P&L basis were set at £36mn. For the future, Directors asked to see additionally the projected cash costs of investment spending over time.

Court noted that under the new MoU with the Treasury a dividend was not payable while the Bank’s loss-absorbing capital was less than £3.5bn. However in the light of the Treasury’s commitment to increase the Bank’s capital to that level at the end of March 2019, Court took the view that a normal dividend of 50% of net profits should be paid.

Court approved the 2019/20 budget and the dividend for 2018/19 as proposed.

Mr Woods said that it would be important to be cautious about hard commitments to a continued flat nominal budget in the outer years, given the possibility of further changes to the Bank’s mandate.

6. Brexit Contingency Planning

(Laura Wallis, Grellan McGrath and Robert Zammit)

Ms Wallis summarised the state of preparation for EU withdrawal without a transition period. All of the key statutory instruments that were critical to mitigate Day 1 financial stability risks had been laid and should be completed before exit. Bank and PRA consultations on changes to rules and binding technical standards had closed and the package of changes and communications was being prepared for publication before exit. The Bank had prepared contingency plans for worst-case Brexit outcomes, including short-term market disruption and liquidity problems.

7. BAME representation at the Bank

(Ratidzo Starkey, Alieda Moore, Ajneet Jassey, Lea Paterson, Shelagh Prosser)

Further to the Court discussion in November, the co-Chairs of Bank of England Ethnic Minorities (BEEM) and the HR Director were invited to discuss recommendations to accelerate progress towards meeting the Bank’s BAME targets. Lea Paterson noted that the Bank was on

track to meet its target of 20% BAME representation at levels below senior management by 2020, but more work is needed to meet the senior representation target (13% by 2022). One of the co-Chairs cited evidence of concern from the 2018 Viewpoint survey that indicated the need to focus on inclusion. Other network chairs commented that the evident strong interest at the top of the Bank needed to filter down more effectively: there should be more specific accountability for the agenda and for the targets. It was noted that Govco had agreed to discuss measures such as clear pathways for progression and greater accountability for the targets that the Bank had set. In addition to the targeted interventions already adopted by Govco to further inclusion - the sponsorship programme, external recruitment and internal coaching - there should be wider recognition of BAME issues; and senior managers should have specific diversity and inclusion targets. A task force led by a Deputy Governor should oversee the programme to ensure coherence and effectiveness issues are identified and addressed, and the strategy is implemented.

Court members welcomed the recommendations and the analysis of overall trends. They asked what Court could most usefully do. Lea Paterson said that the issue had to be addressed from the top, so Court's support was important, but also needed to be reflected in management objectives and management competencies. Baroness Harding said that while it was often easy to pick out middle management: progress was a collective responsibility requiring continuing pressure from the top.

The Governor said that he welcomed the discussion, and re-emphasised Govco's existing commitments. Change should be expected. At a high level sponsorship was certainly important. On delivery, developing the pipeline was important so he would continue to hold HR to account in areas such as graduate and other recruitment. The Bank, supported by HR, should continue to monitor carefully the record on internal promotions and recruitment. His sense was that the dial was already shifting. Ms Place said that of the recent offers to graduates for the 2019 intake, 47% were women and 39% BAME. Sir Dave Ramsden and Mr Woods said that the recent introduction of pooled recruitment at the HoD level had been ground-breaking in drawing decisions into the centre. Retention was a critical issue - and Governors were committed to supporting HR in addressing this.

The Governor noted that the changing responsibilities of the Bank had themselves driven diversity. In the recent past the focus of graduate recruitment had been largely on economists and the result (given that only 30% of economics graduates were women) had created a gender issue. Now with a much broader skill base, and the training offered through the CBQ, we had approached a tipping point on gender. The same dynamic should be made to work for the BAME community.

The Chair said that this had been an important discussion for everyone, and emphasised that there should be no doubt about the Bank's commitment to achieve a substantial transformation in this area. It would be a standing item on Court's agenda for the future.

8. PRA

Court noted the PRA's restatement of its strategy and the strategic goals adopted by the PRC for 2019/20.

Mr Woods noted that the PRA had been operating a recruitment freeze as staff were released from the Ring-Fencing programme and the turnover rate had slowed. There was however some pressure on Authorisations at present and a phased withdrawal of the freeze was under review. Mr Woods also noted a proposal from the Kingman review of the FRC that the PRA should become responsible for regulation of the actuarial profession, which could create a conflict as the PRA often had a position on actuarial issues and was a large employer of actuaries.

Finally Mr Woods updated Court on recent supervisory issues.

9. IEO - Stress Test Review

(Melissa Davey, Alex Brazier, James Proudman, John Power, Renee Horrell, Jamie Barber and Adam Day)

John Power summarised the main themes of the IEO's review of the Bank's concurrent stress testing regime. The findings were positive – the regime was delivering an operational framework to support macro and prudential policymaking. There were suggestions for process improvements, and suggestions for enhancing the insights that the ACS provides into banks' business models, and ensuring that the feedback to firms is sufficiently rich.

The final report would be brought to Court for approval in April, and subsequently published with a Bank response.

10. Court Effectiveness
(Kathy McCarthy)

Court discussed the latest effectiveness survey, based on a survey of members and personal interviews with the Chair and – in relation to the Chair himself – with Dorothy Thompson. Overall Court was seen to be working very well, although there were some important executive and non-executive appointments to be made over the coming months. It was hoped that these would maintain the right balance of expertise and challenge going forward.

11. Policy Committee Codes of Practice
(John Footman)

Court was content to accept an amendment, proposed by HM Treasury, to clarify the process that would be followed in the event that a policy committee member's conflicts were seen as inconsistent with continued membership of that Committee.

12. Committee Conflicts
(John Footman)

Court noted the current conflicts registers.

13. MPC Discussion
(Andy Haldane)

Andy Haldane discussed the outcome of the MPC's February meeting and the Inflation Report.

14. Papers for information

Court noted:

- The Governors' Objectives
- Annual Salary Review

The meeting of Court was closed.