

MEETING OF THE COURT OF DIRECTORS

Friday, 25 October 2019

Present:

Mr Fried, Chair

The Governor

Mr Broadbent, Deputy Governor – Monetary Policy

Sir Jon Cunliffe, Deputy Governor – Financial Stability

Sir Dave Ramsden, Deputy Governor – Markets & Banking

Mr Woods, Deputy Governor – Prudential Regulation

Ms Glover

Baroness Harding

Mr Kalifa

Ms Noble

Ms O’Grady

Ms Smits

Ms Thompson

In attendance:

Ms Place, Chief Operating Officer

Secretary:

Mr Footman

1. Minutes

The minutes of the meeting held on 13 September 2019 were approved.

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

2. Matters Arising

(a) New Governor appointment

Court noted the progress towards the appointment of a new Governor.

(b) Annual Salary Review

Ms Place advised Court that the Bank’s proposal of a 2¼% increase in pay plus two extra days discretionary leave had been accepted by the Union.

3. ARCo Update

Ms Thompson updated Court on the recent meeting of ARCo, which had been principally concerned with technology risk.

4. RTGS Renewal

(a) RTGS Renewal Committee

Ms Thompson, having acted as Chair for the Committee's latest meeting, said that the programme continued to make good progress. The first round of bidding for the Technical Delivery Partner had been completed. The resourcing risk remained amber and the Committee currently expected costs to be in line with the mid-range budget of £250mn. The next step would be to down-select the potential bidders from four to three, and invite best and final offers. During that process there would be emphasis on proof of capability and also on price. The Committee was paying close attention to value for money at all stages in the process.

Court noted that Mr Kalifa would chair the Committee from 1 November.

(b) RTGS Renewal – Capital spend payment options

(Afua Kyei, Rob Elsey and Nick Lodge)

Court approved Ms Kyei's recommendations on the allocation of two capital spend items between the RTGS project and the Bank's normal investment budget.

5. Implementation of the Central Services PAC/NAO plans

(Afua Kyei, Jonathan Curtiss and Stephen Brown)

Court discussed the Bank's progress in addressing the recommendations made by the NAO in its Report on the Bank's Central Services (December 2018) and the subsequent (similar) recommendations from the Public Accounts Committee. Ms Place had written to the PAC in June 2019 setting out the Bank's detailed response and the changes that the Bank was making. She noted that a VFM steering group had been established to track progress, and transforming central services was now one of the Bank's seven strategic priorities. Progress had been made in defining, agreeing and implementing the Target Operating Model, and a Transformation Office established in September to drive forward the necessary changes, and to track and monitor the realisation of benefits. Finance were developing a more robust performance measurement framework.

Ms Noble asked what progress was being made on benchmarking. Ms Kyei said that a start had been made with CIPFA benchmarks, but they had limited relevance to the Bank given its

functions. Ms Place said that she had reached out to 10 central banks as comparators. Beyond that, there were a few domestic institutions with some functions that matched the Bank's. And there was the option of contracting third party research but that had been ruled out thus far on cost grounds. Ms Thompson said that some metrics could be simply benchmarked to the private sector – for example HR staff as a percentage of total staff.

Mr Brown said that the Compliance Division was currently focussing on all of the Bank's standards and policies, and ensuring that they were available, up to date and understood, so that compliance could be tested in each case. This work would be reported to ARCo as it progressed.

It was reported that the NAO might be interested in the note issue function as a topic for their next Report.

6. Budget and Costs – Forecast and Framework (Afua Kyei)

Court considered proposals from Ms Kyei on the budget framework for 2020/21. The Governor commented that the Bank's cost base had expanded following the expansion of its remit in 2012/3, including absorbing the PRA, bringing in ring-fencing of the major retail banks, taking on the supervision of FMIs, gaining responsibility for Resolution; and preparing for Brexit. From 2018/9 the Bank had sought to consolidate, and the flat nominal cap was imposed as a framework for reprioritisation and to reinforce cost-consciousness. Over two years the Bank had been operating within that constraint. There were now new demands. Following withdrawal from the EU there would be changes for the Bank's role as regulator as the UK absorbed functions formerly undertaken by EU agencies, and for its task as supervisor, with a material increase in the number of firms authorised. Big issues, to which the Bank needed to respond, had been raised by the Future of Finance report and by the work on climate change. And some prioritisation options would cost money to implement.

Directors voiced a concern, that without a Bankwide operating model, prioritisations would happen within rather than across silos. They asked what process would get the options spelt out and the decisions taken? There needed to be a place for central judgment about priorities and budget allocations, and to ensure that individual EDs were bought in. Ms Kyei said that would

certainly happen, and Ms Place said that the Governors would be fully brought in to the discussions. EDCo would be fully involved as they had been in earlier rounds of prioritisation.

Ms O’Grady supported the paper but stressed the importance of co-ownership of savings – in most cases people at the coal face resented waste and welcomed clear priorities. Investment was not just about kit but about people, which required management skills and having the right conversations

Court was generally content with the proposals in the paper, which included a change to the allocation of depreciation from next year. Ms Kyei would work up the proposals and Court would discuss them in more detail as part of the formal budget proposals for 2020/21.

7. Succession Planning (Jonathan Curtiss)

Court members reviewed plans for Executive Director and potential Deputy Governor succession. It was noted that both BAME and gender diversity had increased in the succession plans. For Deputy Governor roles (subject to a public appointment process) there had been an increase in identified potential candidates from outside the Bank. Members discussed the attrition rates for those at scale C+.

8. Diversity and Inclusion

(a) BAME Taskforce Update (Jonathan Curtiss, Paul Wright, Cat Hines and Ratidzo Starkey)

Sir Dave Ramsden, as chair of the BAME taskforce, gave an account of the activities of the group since it was formed in April. He said that there had been no doubt about senior commitment to the objectives – to meet the 2020 and 2022 targets and reduce the BAME attrition rate – but he was less sure that it ran right across the Bank. And the challenge was considerable – the Bank was 7 percentage points short of its 2022 target for representation at C+ (Head of Division and above). Progress would require formal and informal sponsorship, and visible support at all levels.

(b) Update on Targets
(Jonathan Curtiss, Paul Wright and Cat Hines)

Court noted the Bank's plans for renewing the current diversity targets that expire at end 2020. The work would be led by the Inclusion and Sustainability team and include outside partners.

(c) Faith Networks
(Jonathan Curtiss, Paul Wright, Imran Mirza, Alice Alphandary and Janet Pack)

The chairs of the three faith networks in the Bank gave an account of their work in the Bank over the past year. All expressed appreciation of the Bank's support at all levels.

9. Cyber Update
(Rob Elsey, Neal Semiken and Ben Davies)

Further to item 3 above, Court noted the Report referred to by Ms Thompson. There would be a further update to ARCo in November, and to Court in February.

10. Brexit and Risk Update
(Phil Evans, Laura Wallis, Stephen Brown, Nat Benjamin, Grellan McGrath and Daniel Konopka)

Mr Evans outlined the continuing work of the withdrawal unit. The Bank was prepared for all possible outcomes, including No Deal. Most risks had been addressed but there remained a possibility of some disruption to cross-border financial services as highlighted by the FPC. An MoU between Bank, FCA and HMT on equivalence determinations had been published on 17 October.

Mr Brown (as CRO) said that the Bank had done everything that it could but he highlighted some remaining risks. These included the continuing absence of a statutory instrument on State Aid, and the possibility of disruption to the SEPA payments system, which required EU intervention. Directors noted that in the event other issues could emerge and it would be important for them to be escalated quickly.

11. MPC
(Andy Haldane)

Mr Haldane noted the continuing decline in global bond yields and the volatility of UK asset prices in the light of shifting expectations of the Brexit outcome. Global activity remained soft and monetary policy had eased in many major economies. Uncertainties had had an impact on UK demand and output, though household spending was resilient, supported by strong growth in real incomes. CPI inflation was expected to stay below the 2% target for the remainder of the year but further ahead was likely to be driven by strengthening domestic inflationary pressures. Ms O’Grady said that while private sector pay was increasing there remained a concern in some areas about savings and unsecured borrowing. Mr Kalifa commented that payments data showed a disproportionate increase in debit rather than credit card usage.

12. IEO Research Report
(Melissa Davey, Mhairi Burnett, Andy Moorhouse, Andy Haldane, Misa Tanaka and Millie Rettie)

Court approved publication of the Independent Evaluation Office (IEO) evaluation of the Bank’s research and the management response.

13. Committee Conflicts
(John Footman)

Court noted the register of Committee members’ declared conflicts and interests.

14. Papers for information

Court noted:

- MoU on Equivalence and Central Bank Exemptions (relevant to item 10(a))
- OBST Roles Architecture (relevant to item 5)

The meeting of Court was closed.