MEETING OF THE COURT OF DIRECTORS (by teleconference)

Friday, 3 April 2020

Present:
Mr Fried, Chair
The Governor
Mr Broadbent, Deputy Governor – Monetary Policy
Sir Jon Cunliffe, Deputy Governor – Financial Stability
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

Apologies:
Sir Dave Ramsden, Deputy Governor – Markets & Banking

Secretary:
Mr Footman

1. Minutes and Matters Arising

Court welcomed Andrew Bailey back to the Bank as its new Governor.

The minutes of the meeting held on 14 February 2020 were approved.

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

The Chair said that given immediate priorities dictated by the COVID-19 lockdown, a report on Cyber resilience and the findings and recommendations from the Internal Auditor's review into the misuse of the Bank's press facilities had been deferred to May. The external review of Court effectiveness, previously planned to start in April, had been deferred to the autumn. And in present circumstances, conclusion of the sale of the Roehampton estate had, unsurprisingly, been delayed.

2. ARCo Update

Ms Thompson noted that the expenditure outturn for 2019/20 was very close to budget, and said that good progress was being made on the annual financial audit. The Internal Auditor had reported no significant issues, though a number of his staff had been temporarily redeployed - with support from ARCo - to help manage COVID-19 issues, including reviewing controls around home working in key risk areas. There had been a full report from Risk on the impact of COVID-19 and the recent measures on the Bank's financial and operational risk profile. The Committee members had also received the findings and recommendations from the Internal Auditor's review into the misuse of the Bank's press facilities; this would be presented to the next Court.

3. RTGS Renewal Committee Update

(Victoria Cleland)

Mr Kalifa said that the programme was currently on track and currently meeting key immediate milestones even though most staff were now working remotely. The most pressing tasks were to select the Technology Delivery Partner (TDP) and to then complete the technical infrastructure that the TDP would work with. Some RTGS programme staff had been reallocated to help put current RTGS running on a remote basis. This could delay some of the less immediate tasks processing of the prospective TDPs' best and final offers. Nevertheless the programme was expected to be evaluating offers during April. By early May it would be clear whether there would be any notable delay to the programme, in particular due to the impact of COVID-19. It had been confirmed jointly with the RTGS/CHAPS Board that the new RTGS would be message agnostic, as proposed in the original blueprint. Court discussed the implications of home-working for the live running of the current RTGS.

4. COVID-19 Internal Response

(Stephen Brown, Victoria Cleland, Jonathan Curtiss and Rob Elsey)

Ms Place set out how the Bank had been organised for the crisis. Under the "Gold" Commander structure there were three workstreams – (1) Keeping critical operations running (Victoria Cleland); (2) Health and wellbeing of staff, including premises and facilities (Jonathan Curtiss); and (3) Technology Support including for home-working (Rob Elsey). All were supported by an active communications programme. 98% of staff were currently working from home effectively, and there were typically less than 100 staff – mostly central services -

across all the Bank's offices. The remote technology had held up well including for supporting meetings, though potential pressures on bandwidth had meant that initially at least they were being restricted to audio. Mr Elsey added that there were currently 10,000 meeting/conference calls daily. Cyber resources had been diverted to focus on the risks from remote working.
Ms Place said that the Bank was meeting some staff expenses to meet occupational health needs for staff working from home. Budget costs would likely be covered by much reduced overseas travel.

All Banking operations (except physical note exchanges and gold movements) and the vast majority of Markets operations were now being managed remotely. Risks were being monitored carefully given that staff were having to work remotely at the same time as introducing new facilities. A playbook was being developed for bringing operations back onsite in response to an incident.

In parallel a reprioritisation exercise was in train. Inevitably some functions could not continue either for practical reasons or because the demand had ceased. Mr Curtiss had set up a clearing house to even out short term supply and demand for staff; and also to reflect longer term reprioritisation. The Bank was also looking at the longer term effect on individuals of being cut off from the Bank, refreshing its wellbeing offering, and above all keeping a good flow of communications at all levels, including weekly vlogs from the Governor. For those who couldn't easily be redeployed on a short term basis, the Bank was providing e-learning packages and encouraging them to volunteer.

Several Directors commented that the pressures on staff would come in two ways: for some, there was the stretch arising from greater pressure to deliver; but for others, whose work was less easy to adapt to remote working or fell away for other reasons, other opportunities should be found. Ms O'Grady said that from a whole-economy perspective there was a divide between those who could work from home and those who could not: and a further divide between staff working on urgent priorities those who were not. Organisations had to familiarise themselves with different rhythms of productivity and to reassure those who might feel left out – bearing in mind that in due course they would have to organise a return to working from work.
Sir Jon Cunliffe agreed that a risk in any crisis was diversion of senior attention from business

as usual. It was important to keep long-term work ticking over – it would be needed when the present crisis was over.

Baroness Harding thought that working at home could be lonely and intense and it would be important to alleviate that in any way possible – she supported the proposal to restore video conferencing as soon as possible. It was also important to keep the Bank's diversity initiatives running. The Governor agreed that communication was key at all levels. He was posting a video every week for all staff and earlier in the week had held a call for 150 managers: the same was happening at other levels in the Bank. Ms Noble suggested mechanisms for taking regular pulse surveys to test the mood.

In response to a question from Hanneke Smits, it was confirmed that the Bank's work on a digital currency was proceeding – a consultation paper had been published.

5. COVID-19 Policy Response

(Stephen Brown and Andrew Hauser)

The Governor said that the few days since he took up office had been a period of unprecedented uncertainty. The period before the COVID-19 lockdown seemed now to belong to a different era. In framing its policy response the Bank had two overarching objectives: (1) to use all the tools available to mitigate any impact on our statutory objectives; (2) to limit long-term effects. At this point in time, the Bank did not know the eventual scale of the damage; nor did the Bank have the expertise to model the epidemiology. There was pervasive uncertainty. As an example, the May Monetary Policy Report would (for the first time) not have fan charts for inflation and output. The Bank would have to find some other way to capture the policy parameters. Moreover we were entering a period when the key economic data would become uniquely uncertain.

The MPC had in its history held only four unscheduled policy meetings. Two of those had been in the previous week. The Committee had needed to respond to severely disorderly markets. It had cut Bank Rate to 0.1%, which the Bank regarded as the effective floor, and expanded the asset purchase programme by £200bn, (unevenly) split across gilts and corporate bonds. Previously it had launched a new Term Funding Scheme with SME lending incentives (TFSME), intended to promote cost-effective bank funding that would support bank lending, especially to SMEs; and a new joint Bank/HMT facility – the Covid Corporate Financing Facility (the CCFF) - under which the Bank would buy commercial paper from companies with an acceptable credit rating indemnified by the Treasury had also been launched. Commercial bank capital available to support lending had been enhanced by the FPC's decision to reduce the CCyB to 0%, and by the banks' own decisions to cancel dividend payments. Bank facilities to support sterling and dollar liquidity had also been announced. The Governor added that the Bank's actions combined with those of other central banks had restored order in financial markets.

Mr Broadbent added that the measures were intended to limit the widespread economic damage arising from the lockdown. What the Government itself had done was probably even more important.

Mr Hauser noted that the measures had driven a very rapid increase in the Bank's balance sheet – an additional £75bn in March alone, equivalent to 3% of UK GDP, resulting a total balance sheet of £675bn. The schemes announced, if fully drawn to upper-bound estimates, could eventually double the size of the balance sheet. The MPC's asset purchases and the CCFF were indemnified by the Treasury; the remainder was Bank risk. The Bank's capital was nevertheless sufficient to cover use of the TFSME and stressed use of the Bank's other facilities, should the need arise.

The Governor noted that all QE asset purchases were by design in the secondary market, consistent with the principle that governments should not finance their spending directly through their central banks. The Bank was of course banker to the Government, and there was a longstanding arrangement for "Ways and Means" advances to enable the Government to meet unpredictable needs in its cash flow. The potential need to use this Facility had been recognised in correspondence between the Governor and Chancellor. There were precedents for this.

6. Annual Reports

Court reviewed an initial draft of the Annual Report text. It asked for the Report to cover the year as fully as possible. It would be possible to deal with the immediate COVID-19 issues, which surfaced only toward the very end of the reporting year, in the forewords of the Governor and the Chair.

The full report would be considered at ARCo on 1 May and at Court on 19 May.

For the purposes of agreeing the 2019/20 dividend to HM Treasury, Court appointed a Committee consisting of the Governor, Mr Fried and Ms Thompson.

7. Banknotes
(Sarah John)

Sarah John, the Chief Cashier, reported on the launch of the new £20 note and on recent developments in the demand for banknotes. The £20 note was the largest ever new note issue and had been facilitated by an operation to convert bank and retailer ATM machines throughout the country. It had gone well.

In the background, however, banknotes were declining in importance as a means of exchange. In 2006 they had accounted for over 60% of payments: by 2018 the figure had fallen to just under 30%. Alternative cashless means of payment had become more widely used, particularly for smaller transactions using contactless cards. In recent weeks, particularly since the COVID-19 lockdown, cash withdrawals from ATMs had fallen significantly: this was attributable both to the closure of pubs and restaurants and to fears of the Coronavirus.

The long run decline in cash transactions was not matched by data for the value of notes in circulation, which had risen from £35bn in 2006 to around £70bn now. So even if not used as a means of payment, cash was still held as store of value.

While cash was used less in transactions there remained a core of people to whom it was very important: and the Treasury were contemplating measures to protect access to cash, including legislation.

The Bank was working with industry to propose a new structure for the wholesale cash distribution system to reduce costs and increase sustainability of the network: a consultative document was being prepared but its release had been postponed as a result of the COVID-19 crisis. Separately the Bank had published a consultative document on a possible future central bank digital currency.

Court members welcomed the update. It was noted that the NAO were examining the cash system (notes and coin) in their current Efficiency and Effectiveness review.

8. Papers for Information

Court noted:

- PRC Survey Results
- MPC Report to Court
- 2020 Financials – Early View
- Committee Conflicts
- Six-Monthly Risk Report
- Houblon Norman George Fund Accounts

The meeting of Court was closed.