



Economic Affairs Committee

Corrected oral evidence: Bank of England: how is independence working?

Tuesday 20 June 2023

3 pm

[Watch the meeting](#)

Members present: Lord Bridges of Headley (The Chair); Lord Blackwell; Lord Davies of Brixton; Lord Griffiths of Fforestfach; Baroness Kramer; Lord Layard; Baroness Liddell of Coatdyke; Lord Londesborough; Lord Rooker; Lord Turnbull.

Evidence Session No. 11

Heard in Public

Questions 175 - 195

Witness

[I](#): David Roberts, Chair of the Court of Directors, Bank of England.

USE OF THE TRANSCRIPT

1. This is a corrected transcript of evidence taken in public and webcast on www.parliamentlive.tv.
2. Any public use of, or reference to, the contents should make clear that neither Members nor witnesses have had the opportunity to correct the record. If in doubt as to the propriety of using the transcript, please contact the Clerk of the Committee.
3. Members and witnesses are asked to send corrections to the Clerk of the Committee within 14 days of receipt.

Examination of Witness

David Roberts.

Q175 **The Chair:** Good afternoon and welcome to our session on the Bank of England: how is independence working? I am delighted to welcome David Roberts, chair of the Court of Directors of the Bank of England. Mr Roberts, good afternoon to you and thank you very much for joining us.

I am going to start off with a scene-setter. Obviously, we are looking at the operational performance of the Bank. I was struck by the opinion research that came out at the end of last week, and in particular the response to the question, how satisfied or dissatisfied are you with the way the Bank of England is doing its job to set interest rates in order to control inflation? There was a score of minus 13%, which is the lowest since 1999, when the survey began. You have said in written evidence to the TSC that the collapse in public confidence is "perhaps unsurprising in the current environment".

This is my question, just to set the scene. Do you think that this collapse in public confidence in the Bank is thanks to events that were beyond the Bank's control or to decisions that the Bank got wrong?

David Roberts: Thank you for that question. I must admit that every other question had started with a nice scene-setter that I had rehearsed for, and I have not rehearsed for that one.

First of all, thank you for the opportunity to come and talk to you. I am relatively new in role. I have been here officially since September or October, so I welcome the review, which is clearly timely and, for somebody new fulfilling the role that I do, is incredibly helpful. I look forward to seeing your conclusions and recommendations in due course.

Is it due to events beyond control or to mistakes? As you have heard from Andrew and your other witnesses, we have had a rolling series of predominantly supply-side shocks that have had amplified consequences. The causation of the challenges we face at the moment is very clear to me. They are real and they hurt the hardest those who are least able to ride those shocks. So the shocks are absolutely clear.

I would be staggered if any organisation in this country can stand back and say it has not had things it could learn from in the last three years. I would be very surprised.

The Chair: In the case of the Bank, what would you say?

David Roberts: We have just announced the review, which should give you some confidence and perhaps a clue that we think there are lessons to learn. There are things the Bank has done really well over the last three years. Some of the responses during the pandemic, the consequences of the work it did in September and October last year, and the way it handled the idiosyncratic financial stability issues with Credit Suisse and SVB, were good examples for the Bank, but you cannot stop

the fact that inflation is at 8.7%, while the target is 2%, and say that everything must be perfect. It cannot be.

Therefore, we need to stand back and ask ourselves what we can learn, particularly—I was not here then—from the second half of 2021 and the first half of 2022. We can look at that in the context of the Bank overall, because it has read-across into other areas.

My own central view of the next 10 years is that, with the combination of geopolitics, climate, data and AI, the monetary tightening that is going on, and, indeed, the electoral cycles all over the globe, we will have lots more shocks, so we need to prepare for that.

The Chair: That is understood and you are right to set out the stall of what you consider the Bank has got right. Just coming, though, to what you think the Bank has got wrong, you mentioned the review. To me, that suggests that, internally, your view is that what has gone wrong is the models, above all else. Is that right?

I am just trying to disentangle this, as we did with the governor. There is a process, which he called the “sausage machine” of the models, and alongside that there is the output of the sausage machine and the judgments taken on the basis of what the models are telling you. What I am hearing from you and from the governor is that it is the modelling and forecasting that has gone wrong, not so much the judgments taken as a result of that. Is that fair?

David Roberts: Predominantly but not necessarily exclusively. I am a mathematical modeller by training. Models are there to be a useful stimulus for judgment and decision-making, not to drive a central outcome. There are lots of questions. We started talking about the review in May. We agreed at the Court that we would do it. I talked to Andrew, and he was comfortable with it.

The Chair: Sorry, can I just stop you there? That was your decision to come up with the review, not the governor’s.

David Roberts: These things are never unilateral, as you know.

The Chair: I am just interested in the discourse that took place. Who asked whom?

David Roberts: I asked him a not dissimilar question to yours about what we can learn. In answer specifically to your question, it was prompted by me, supported by the Court and readily agreed to—this is a very important point—by Andrew and the colleagues.

I have sat down with every member of the MPC, both internal and external. We may come on later to how I fulfil some of my responsibilities, but they all made the point that they thought we had lived through some very challenging times. “Unprecedented” is not a word I like to use—there is always precedence in history—but they felt it was appropriate to sit back and look broadly.

This is an important point. It is not just the forecast; it is about the role of the forecast and how we use that. We currently have fan charts. What about scenarios? It is conditional; to what extent should it be conditional, and so on? How do our thinking and our processes cope with a series of significant shocks? That is the nature of it.

We are in the process of setting it up. Andrew and I also decided that it had to be externally led, for a whole series of reasons. Also, we will work with the individual on the terms of reference, and then it will be totally transparent and public.

The Chair: I am delighted to hear that you are having these frank conversations in the Bank. Are you, though, also looking at whether you want to have reviews on other aspects of the Bank's performance and functioning? We are going to come on to some of these topics. I am thinking of appointments, the culture within the Bank to prevent groupthink, and communication. Should the Bank be looking at any of those as well, or is it just about focusing on this issue of forecasts?

David Roberts: You do not need a review to have conversations and learnings on some of the other topics. I am sure we will come on to that. By the way, if there is one recommendation for you, I really do not like the word "Court". It sends lots of signals. It is obviously enshrined in history. It is a board and that is how I think of it.

In the normal cycle of boards, you will always have conversations looking at what you can learn and what you can do better. It is a sign of a strong organisation. I do not want the Bank to be defensive in any way, shape or form. I do not think it has been, but we must not be, and we should learn from our experience. That is the way we get better.

The Chair: We are going to come on to a number of the topics you have raised, so thank you very much for scene-setting.

David Roberts: You raised them.

The Chair: You have also touched on them.

Q176 **Baroness Liddell of Coatdyke:** My question is in the same sort of park. Once upon a time—and I hate to admit that I was actually around at that time—the Court had a role in providing candid counsel to the governor. Its role seems to have changed. People draw to our attention that it has changed, and power has diminished considerably over the past couple of decades. Do you agree with that? Do you find yourself in a position where you would advise the governor? Does he look for that advice or does he restrict it?

David Roberts: I would challenge the premise of the question, if I may. You were there, so you know that the Court was an important source of advice, but that was before we had policy committees and the remit had grown. The Court's role has changed materially over time. In particular, it has been through three or four iterations and statutory, and has modernised. It is very different now, as is the world we are in.

It is also important to recognise that this is a 5,000-strong organisation with a trillion pound balance sheet and £775 billion of payments every day through its core system. This is a complex, broad organisation, and the governance needs to be commensurate with that.

My model is very clear. We have significant, critical responsibilities to the people of this country. The governance has to be as good as that, so my model is a FTSE 10 business. That is what I am used to. I would argue that it is very different, and potentially more impactful, because it is not just a source of advice; it is a source of accountability.

The Court/board is responsible for, as I describe it, the operational effectiveness of the Bank of England, so everything up to but not including the policy decisions. That includes resource allocation and budgets, appointments excluding external policy, investments, culture, capability, ethics and, critically, delivery.

We execute that through challenge and support and through bringing experience. The people around the table have very wide and broad experience, including very current experience. Tom Shropshire is general counsel and a board member of Diageo, and used to run Linklaters in the US. Jitesh Gadhia, as you know, is an investment banker on the board of Rolls-Royce. We have real, up-to-date experience.

In terms of both statutory responsibilities and the remit we fulfil, our ability to influence and execute change is high. I am not saying the previous one was wrong at all; I am just saying this is different. The Court is part of the accountability chain, and that is what you should hold us to account to.

Baroness Liddell of Coatdyke: Can you give us some idea of the specific issues you have raised in using your powers since you joined as chair?

David Roberts: We have talked about one already, which is the review. Each chair of the Court has been different, and I am probably more at the operational end because that is my experience. I have focused quite heavily on what I consider to be the critical drivers of performance, which are culture and capability. That includes both human capital and operational resilience.

We have work ongoing on operational resilience and technology end of life. We have had exercises on cyber. We have also put a lot of focus into succession planning and talent. I have changed the way the nominations committee works to put more focus on that. We have talked to the governors and the executive committee about those issues. We have a strategy conversation, which is ongoing and will take some time, about artificial intelligence and what implications that has for the Bank both as a central bank and as a regulator or a party.

So, there are many, broad areas. But, for all the issues about statute and what is written down—including, for instance, access to the balance

sheet, which is a matter reserved for the Court—there is the equally and in some respects more important one of the more informal influence and informal governance. Baroness, you asked a very specific question about whether I have had conversations with the governor. My role is not to be the governor's friend.

Baroness Liddell of Coatdyke: Have you had those conversations?

David Roberts: Yes, of course, but you have to be focused and prioritised. You have to recognise that he is doing a very difficult job, and he feels that accountability. Anyone who thinks that Andrew does not feel the accountability of what is happening does not understand him. You also have to be there to help him. It is not just a challenge mechanism.

A good chair, in line with current expectations, has to—it is a slightly hackneyed phrase—challenge and support. As I said, you cannot be their friend; you can be a different set of eyes, ears and networks. The point about advice that you raised is very valid as well. That is part of what the Court of non-executive directors does. We try to set high but realistic expectations. You have to have those conversations.

I always say, feedback is a gift if you do it with the right motive and you do it respectfully. If your motive is to help the person do a better job, you are not doing them a service by not providing it to them. That is how you do it.

Q177 **Lord Londesborough:** In your testimony to the TSC, you listed getting the right capability and culture as a key priority. You mentioned that again a few minutes ago. "Culture eats strategy for breakfast" is a famous management consultancy quote. Given that you are a relatively fresh pair of eyes, having been chair for eight to nine months, I am interested in how you would describe the current culture that you found at the Bank. To use your words, what needs to be done to get that culture right?

David Roberts: I think of "right" as in optimal, rather than right as the opposite of wrong. That would be where I would start. I would not say the culture of the Bank is wrong at all—quite the contrary.

I had the privilege of being vice-chair of the National Health Service for seven years. "Vocation" is a strong word, but I see significant parallels in the complete commitment, teamworking and sense of responsibility and accountability of the people of the Bank to their mission and to the people of this country. The strongest form of accountability is to the people of this country. I see so much good. I see very smart and experienced people. I have seen them in times of great stress.

I go back to what was a fabulous induction for me last September and October—I wish I did not have to go through it, and I hope the country does not have to go through it. What did I see? I saw brave decision-making. I saw tremendous teamwork. I saw innovation and creativity. I saw people working all hours. I saw what the country would expect: a solution being found and a determination to prosecute that.

That was fabulous. It was a bit like the health service in Covid or the private sector firms that I had the privilege to be in. We would all wish that we could bottle that and make it more industrial scale, if you like. It is not a model that you can sustain. What does that mean? I want to see the organisation become more tech, data and digital aware. I would like the organisation to continue to focus on its diversity of thought, background and experience agenda, which Andrew is pushing hard, because that leads to better talent and better decision-making. That is an important part of it.

When you are under the cosh, as we have been through some of the circumstances while I have been here, there is a danger that you can become a bit introspective, so we need to counter that. Becoming fleet of foot and a bit more agile is a challenge for all organisations, not just the Bank of England. We are all trying to do that in a world where the clock speed is going up and the amplitude of the things you are facing is getting broader.

Looking forward, it is all about how we create the agility, tech and digital awareness, and the diversity of background, thought and experience, that will allow us to anticipate and respond to challenges, but also to continue to deliver the mandate we have the privilege to be given.

Lord Londesborough: You said it is not about right or wrong, but about looking for what is optimal. I am getting the impression, particularly given your private sector background, that there is a certain degree of modernisation required in terms of agility, tech and data, and being perhaps rather more external facing and less internal. Is that fair?

David Roberts: I would start by saying that most private sector organisations would kill to have the sense of purpose, unity and commitment to a mission that I see in the Bank of England. There is enormous strength. There is a caricature of the public service, as I saw in the health service, that is not fair. You have to bottle that strength. Then, as ever, there are areas of operational practice that are really good and there are areas you can work on.

Baroness Liddell of Coatdyke: It is quite interesting listening to you. You talk about last September, which was such an unusual event. You say you are a mathematician. Were you able to take economic advice at that time, or was all your economic advice coming from the Bank employees themselves?

David Roberts: At that stage, the input that I got was predominantly, and pretty much exclusively, from the team within the organisation. There is a very important "but". The Bank has an incredibly impressive market intelligence unit, which is a very strong part of its skillset, run by a lady who joined us from one of the investment banks. It is a very talented team. We were getting significant input from the marketplace on what was happening, what the trends were, what the challenges could be and what some of the solutions might be. That is really important. We must never have a monopoly of good ideas or wisdom. We should be very

thoughtful in order to hear, loud and clear, the views of market participants and consumers. In that case, it was market participants, and that stood us in good stead.

Q178 The Chair: Can I just clarify your role and that of the Court? Reading from the debate on the 2016 Act to reform the Bank, the Minister, who happened to be me, said at the Dispatch Box, "As the governing body of the Bank, the Court is responsible for ensuring that the statutory committees exercise their statutory roles and responsibilities effectively, including that they are adequately resourced and supported to do so".

Given what you said a few moments ago about the free and frank conversations—I obviously do not want you to divulge what those conversations may be—do you feel able, therefore, to give your free and frank thoughts to the governor on monetary policy and financial stability without fear or favour? As you say, it is about being a critical friend. I take it that you see that as part of your role, given what you said.

David Roberts: I have no policy responsibility, as you know. I would hope to be one of many voices that the governor listens to, but he should not treat my voice as any louder than anyone else's on issues of policy.

To your point about statutory responsibility, I have observed all the committees multiple times in my short time at the Bank, because my responsibility is to make sure the policy committees are in the best possible place and served well enough to make the best possible decisions. That includes cultural and softer factors, as well as process and harder factors.

Again, I am not the chair of the committee, but I can provide input, and I hope that is helpful for Andrew. It is up to him to decide what he does with it. As a chair, your relationship with your chief executive—in my parlance, with the governor—is founded on mutual trust, confidence and a recognition that you are both trying to achieve the same outcome, although you have different roles and come at it from a slightly different perspective. That is how I seek to do it. Andrew asks me to go and look at things for him as well, because I am a different set of eyes and ears.

Lord Blackwell: The Court has delegated a lot of its accountabilities to these committees.

David Roberts: Not to the committees. The committees are delegated in statute; the Court has not delegated them.

Lord Blackwell: The strategy of the FPC, I believe, has been delegated by the Court to the FPC to review. But, anyway, if the Court is not able, or does not feel it is its role, to interrogate the policy substance of what the committees are doing, how can you judge whether they are being effective? I understand that culture, organisation and resourcing are important, but does there not need to be some challenge?

David Roberts: Let me talk about the specifics you raised regarding financial stability. The Court has delegated the financial stability strategy

to the FPC because it is well placed. That is not abdicating it. When it comes to the Court's responsibilities, we have to make sure it includes PRC input, FMI input and the other parts. We interrogate it. We had sessions on that. As always, as you will know, you have to work both sides of that: the delegation and the challenge.

To the substance of your question, it is absolutely right that the non-execs of the Court can observe the committees, and we do. Andrew is also particularly interested in any observations or feedback, but we have to be very careful about trying to stand in on the policy decisions, because that is not our remit.

What we can do, as I have done, is talk to both the internal and external committee members. Having observed the committees, that gives me the ability to ask a wide range of questions, including of the staff, and allows them to look at the whole gamut of things that they need. Then we also have, under the statute of responsibilities, the ability to look back. Learning from experience is a powerful form of helping to improve the decision-making, but it is in hindsight rather than at the individual time. That has been central to the division of responsibilities between the Court and the policy committees as they have developed over time.

The Chair: I do not want to be obtuse, but I am reading from the Bank of England's own website and it says, "The Bank also has a statutory objective to 'protect and enhance the stability of the financial system of the United Kingdom'". This is the key bit. "Court is responsible for the Bank's strategy in relation to that objective". Given what you are saying, and given all the powers, or lack of them, it seems as if you are given this responsibility but have very little power to execute it.

David Roberts: I am not sure I would accept that. Ultimately, the governing body of any corporate organisation is accountable for the things that go on within it. It does not do them all itself; it delegates some of them to management or to other bodies.

We are clear on the substance of the one you raised. We have delegated that to the Financial Policy Committee because there are a set of people there with very broad experiences. That includes people from outside the United Kingdom, because we are a global economy subject to risks to financial stability that flow around the system globally. They have the capability, the resourcing model and everything to be able to interrogate that in depth. That is what they have done.

We then take that. They do not do it in isolation. They talk to the PRC members; they talk to others. They do it across the Bank. They talk externally to different counterparties, which they are doing all the time in terms of their own responsibilities, and they propose the strategy to support financial stability. We interrogate that, with the various and differing experiences we have around our table, and then we approve it, ask for changes or go away and start again.

The fact that we do not do some of the heavy lifting ourselves does not either abrogate our responsibility or mean that we do not have the ability to do what we are asked to do.

Q179 Lord Griffiths of Fforestfach: I am sorry to almost bore you, but I want to come back to the point that four people so far have made. As I thought about the meeting, I asked myself the question: what is the difference between being chair of a FTSE 100 company and being chair of the Court of the Bank of England? I may be wrong, but my hunch was that, when the structure was changed, the Court was, in a way, downgraded from being what it had been, or at least changed, and it was much more concerned with the operational side, which you touched on earlier in terms of culture, capability, technology, operational resilience and so on. On the other hand, the whole of policy was something separate from that. That is how it was perceived.

I was a member of the Court when it was what it was, and I was an academic economist. The other 11 people were all chairs or chief executives of major companies. We used to meet weekly, and we always had a lunch following the weekly meeting, which was one hour on a Thursday, because they paid us only £500 a year for what we did. At that time, there were endless conversations between heavyweights, such as yourself, and the executives. For example, I had endless discussions with Eddie George.

If I now play the role of an adversary, I do not see how you can be the chair of an organisation if you are excluded, by the statute or whatever, and policy is not your area; that is for the chief executive. It seems to me that what you have done, in looking at performance over inflation, forecasting, models and all of that, is actually a negation of what you are set up to do.

You said, "We have to have a broader remit than we've been given". Would it not be better if whoever set it up threw in the towel and said, "We can't have the chair of the Court simply restricted to operational issues; the whole issue of policy has to be part of the mix".

David Roberts: It would be wrong if you had the impression that Andrew and the executives are not talking to people like you every day, because they are. Through that market feedback and those conversations, they get that insight all the time, so I would be wrong if I allowed that to go without comment.

On the question about policy versus operations, there is always a boundary, of course, but let us be clear. The statute was set up for a reason, which is to have clarity of accountability and independence of those policy decisions, and to ensure that the right people are there. There is a lot to like in that.

As I said, my role and the Court's role is not to take the policy decisions, but to focus extensively on ensuring that people are best placed to do that. Yes, it is different from a corporate board; so was the health service. Fundamentally, we are also part of the executive line of

accountability, including democratic accountability, which makes it different as well.

You would have a very different organisation and entity if you went down the route of saying that the Court had accountability for the policy decisions, because you would need different people and processes. It would have to be a very different model of resourcing of the Court in what it does. That has material consequences. I push back on the idea that the Court has been downgraded. That is wrong, if I may say so.

Lord Griffiths of Fforestfach: I am delighted that you say it.

David Roberts: It has real influence, except in the decision of policy. That was set up deliberately, as I understand it, by the lawmakers of the time, and has carried on for 25 years. I am sure that was for good reason.

Lord Griffiths of Fforestfach: We have taken evidence from lots of people, including ex-central bankers and so on, on the issue of groupthink. From everything you have said so far, it seems to me that you are totally on top of the issue of groupthink and you will look into it, in the same way that you are looking into the charge made against the Bank because inflation is four times the target.

David Roberts: May I respond on this? It is so important. It is the thing I have probably given most thought on, both over the last few months and particularly because I thought it might come up today.

If you do not mind, I will take a few minutes on this because it is central. This is a risk across all organisations. It is not just a public sector or a private sector risk. That risk manifests itself in two principal ways. One is the risk of everyone thinking alike and not considering countervailing arguments. There is also the equal risk of an overpowering, dominant leader forcing things through.

When you are thinking about groupthink you have to think about both those elements. This is one of the central responsibilities of boards, both private and public. The chair, in particular, has a key role because he or she should be closer to some of the action. That is the first thing I would say.

How do I think about groupthink? What do you need to have in place to ensure it is not prevalent or dominant? You have to be clear on the composition. Do you have the right people around the table? That is about not just technical skill, but the way they engage and their willingness to challenge. That gets to the culture of the committee or the board.

I have a mantra that I use in all the boards I have chaired: anyone can challenge on anything as long as they do it respectfully and with the right motive. If you have that as your rule, you open up a freedom. That gets you to the role of the chair. It is central for the role of the chair to be able to create an environment where you set the tone for people. You allow

dissent as long as it is done with the right motive and you focus on the right issues.

Then there is another thing, and it is probably a little bit about how I am wired, as well. You have to be really careful about avoiding arrogance. You have to be slightly paranoid. What is the counterargument? What happens if I am wrong? That allows you to challenge yourself and your colleagues. Then it gets into consistently learning and building the sort of environment where you see learning as positive, not negative.

If you have those in place, that tells you that it is a very important role for the Court to look at this. It has to ensure it is doing that itself; it has to set that tone. How do we do that? It is through observation, our role in appointments, and feedback to the chair, the staff and the committees. It is about having some of the harder conversations that we talked about, if need be.

How is the Bank doing? Generally, there is good practice, but there is always room for improvement. I am sure your key focus is the one you raised, which is the MPC. I have observed a number of the meeting rounds, and I see divergent views, not just in the voting record but in the way the committee operates. I see divergent views within the internal and external members. I do not see the distinction that some people from outside might.

I absolutely recognise the concerns based on the outturn. Therefore, we have to ask ourselves, going back to why the review is central, what we can learn. You were involved in a very interesting discussion last week with Lord King and Andrew about whether we looked enough at the monetary aggregates and what was happening.

In H2 2021 and H1 2022, I was not here; I was running boards, but Andrew has described it as a real challenge to figure out what was going on with the labour market at that time. There are things like that. You have to ask yourself what else we could have done. What will equip us to do this in a way that builds a better outcome, if indeed that is possible? That is something we also have to ask ourselves. If you had this rolling set of shocks, what would you have to have believed for the outturn to be less and what would that have meant? The absence of a counterfactual makes it quite hard.

That is a very long answer to a simple but very important question. It is critical; it is the role of the Court to observe that. It is something you always have to be wary of, and you have to be particularly wary when things are going well. If you look at a stable monetary environment for quite a long period, you have to be asking yourselves what can come round and hit you in the face. Thank you for the question. It is so important.

The Chair: Can I just follow up on this point? You are talking about the role of the MPC and groupthink. As you say, it has been the focus of quite a lot of our debate. I am just interested in your views on this, in

particular this focus on what the governor was talking about last week on monetary aggregates, and whether there is therefore a need to look at the diversity of views within the MPC.

Here, one has to distinguish between a debate about whether, for want of a better phrase, monetarists are right and one about whether there is diversity of views and challenge, as you are saying, which is so important. First, do you think that review is worth conducting? Secondly, what could the Court do about this? I am just interested in what your locus would be in those appointments.

David Roberts: I have a number of points there. We need to ask ourselves, as part of the review we are commissioning, what other sources of challenge there were and whether they were properly considered. That is not in the sense that they were left to one side, but what can we learn from that, given that it will be a different set of circumstances next time? That is part of it, which is worth doing.

The Chair: I am terribly sorry to interrupt you. Your review will look at things such as the composition of the MPC.

David Roberts: No, I do not think it will look at the composition, because I do not accept the answer that says, in order to have every view respected, you have to have a particular person on the committee. You can do this in many ways, so I would separate the composition from whether you are considering a broad enough spectrum of opinion. Those are two different things, if I may. The Court can do quite a lot, particularly about the latter, and I am sure we will come on to appointments.

Q180 **Lord Turnbull:** I want to explore a bit more who gets appointed to the senior positions in the Bank and how. You said your model is a FTSE 100. Let us start with the externals of the Court. In a FTSE 100, you have a noms committee, probably chaired by the chair, or maybe by the SID, and you go through who you have, who is leaving, what skills you want and what geographical coverage you want. You come up with some names and then you put those to the shareholder, but the initiative starts with the company itself. Is that closer to what the Bank is, or are you more like a Chelsea football manager who gets the players the owner buys?

David Roberts: As a lifelong Everton supporter, I would quite like to have the Chelsea model at the moment. A bit of money would be a good thing.

No, it is closer to the model that you describe. I know the term dates of the people who are around our board table. I have an idea of the mix of skills and capabilities, and the style and culture that I want to engender, to go back to our earlier conversation.

As you know, the slight difference, which I am sure we are heading into, is that we have a nominations committee that I chair. That includes consideration of external members or non-executives. Let me talk about

the current situation. We have a process to be the audit and risk committee chair. We have been through a process to consider the experience we would like to have. The difference is that the appointment process is run by the Treasury. I am on that appointments board and I can tell you, based on the conversations that I have had, that we have yet to have the conversation about who it is because we are going through the process.

I would expect to have considerable sway in that, but I am comfortable with the fact that there are others engaged. There always are. The non-executives do not yet know who is on the shortlist because it was only decided a couple of days ago, but we have a meeting next week where we are going to go through those to get insights from people there.

It is similar but slightly different because, at the end of the day, the appointment is a Crown appointment. That is in the statute. It is run by the Treasury. It is akin to the idea that, if you are a 100% subsidiary, you have to take your shareholder with you. There is a bit of that in it.

Lord Turnbull: Before 2010, it would have been closer to the other model.

David Roberts: I can see only what I have seen.

Lord Turnbull: You then have some externals on the Monetary Policy Committee, the FPC and the PRC. You do not have any involvement in the appointment of the externals to the MPC. Is that right?

David Roberts: I will take all the policy committees, because we need to look in the aggregate, not just at the MPC. The process is slightly different. Andrew clearly has a view about what type of skillset and individual he wants. Based on the conversation we just had about groupthink, observation and all the various things we talked about, there is a case for the Court to be able to input into that conversation as to what is relevant and important. Then there is a process.

It is also important to recognise that there is always an external member who used to be a policy committee member on that appointments board. You get real expertise, not just in economics, as a case in point, but in the operation of the committee. Then there is the process run by the Treasury. Clearly, governors come in different hues and statutes last for quite a long time. The statute is there partly to ensure that there is always that challenge to the governor and to the colleagues, and that is why the appointment is done separately and slightly outside the conversation.

Lord Turnbull: Do you think the Treasury should still be running the process, as opposed to being the final decision-maker based on advice?

David Roberts: I have seen only tangentially the policy committee appointments that were done recently. I was not engaged in that to a great extent, partly because there were lots of other things going on. Treasury has an accountability and a responsibility. The critical thing is

that, returning to what you described before, we are clear about what we want, on both the hard skills and the interpersonal or interaction skills. There are clearly issues around conflicts and ethics that are also vital.

If it is not going to be done within the Bank due to the risk that I talked about, the other model is something like the Judicial Appointments Commission. That is quite different, because part of your role there is to hold the Government of the day and of future days to account. That requires you to be outside of government. We are part of the executive line, which is why the Chancellor and the Prime Minister should do that. Who runs the process is slightly less relevant than being clear about what you want and whether you have the right assessment process in place.

Lord Turnbull: Am I right in saying that the current balance in the Court is five executives, namely the governor and four deputies, and seven others?

David Roberts: There are nine, me plus eight others, of which seven are filled at the moment. That is a large board.

Lord Turnbull: Also, it is probably a bit exec-rich.

David Roberts: It would be more than you would expect to see in the corporate world. I would completely accept that.

Lord Turnbull: If it was an American board, of course, you would have even fewer execs.

David Roberts: There are pluses and minuses to the American board model.

Lord Turnbull: You do not regard adjusting that balance as something high on your list of priorities.

David Roberts: It would be wrong to characterise the operation of the board as being executive-led and executive-heavy. The way the Court operates is driven extensively by the non-execs, clearly, in consultation with the governor, because there are things he wants to talk about and things we want to talk about. It is always valuable to have executives around the table. There are occasions I have seen where, if you have only two, it can become very dominated.

Is it high on my priority list? No, not at the moment, because I am comfortable that we get the right challenge at the right time on the right thing, but the principal reason for that is that I want to keep us laser-like focused on getting inflation down and delivering on our financial stability objective in a challenging time. I do not want anything to disrupt the people who are leading on that.

Q181 **Lord Griffiths of Fforestfach:** Are all of the non-executives on the MPC economists or academic economists?

David Roberts: I have two observations. If they were here, they would probably push back a little on the word "non-executive" because it is a

three or four-day-a-week role. I know that they are hugely committed in what they do. In terms of their background, up until 30 June, they are all academic economists. The most recent appointment is a mixture. Megan Greene is currently the chief economist at Kroll.

It is my bias, but I think that, while you certainly need the academic economists, you also need people who, ideally, have done economics in a large commercial environment. I look at people such as Kate Barker and Ian McCafferty, both of whom, from what everyone tells me, were tremendously insightful, useful and challenging external members. I always think there is a role for that. That is very true on all the committees, by the way, not just on the MPC, but I have a bias because I am not an academic economist. If you run banks, you learn economics.

Lord Griffiths of Fforestfach: As an academic economist, I very much agree with you.

David Roberts: I am glad to hear that. That is at least one that I can put down as agreed on.

Lord Griffiths of Fforestfach: To take the example of the Federal Reserve in the US, many of the governors of regional feds and so on are not academic economists but businesspeople, who see what the Fed is doing from a business perspective. It seems to me that one thing the MPC lacks at present is a mixture of people with business experience, as they see the conduct of monetary policy differently from the debate within the academic community.

David Roberts: You have to have sufficient economics to be able to be on that group, but I am agreeing strongly with you. One of the challenges for policymakers generally is that consumer and business behaviour is changing quite dramatically, and you need to be in that flow.

Returning to the point I made to Lord Bridges, you do not need to have every view represented around a table. You can get a lot of that insight, which we do. The agents provide us with input, but there is nothing like hearing it directly, especially from people who have experience of the economics, but also of what is happening in their markets today and what might happen tomorrow. I support that. It is very true on the FPC and on the PRC as well. You have to be careful about conflicts. The standards on conflicts and ethics are rightly very high, and that means that some people select out.

The Chair: When you do the appointments to the MPC, do you think it would be healthy, or a distraction, to have a conversation in that process internally saying, "Do we have the balance right here between those who are more focused on money supply as opposed to the Keynesians? Is there the right intellectual diversity here?" Is that taking place?

David Roberts: My analogue on the boards that I have had the privilege to serve on and lead has been precisely to look at the mix of skills. If I look at Nationwide, for some time we had board advisers on cyber and

technology. For at least 10 years, we have had a serving COO who is living in the world of tech and data, not in financial services. I have always had a model where you have different skills, backgrounds and experiences.

There are only so many seats around the table, so you have to be careful; you have to prioritise. But it is incumbent on you, when thinking about the future structure and participation of your committees, to understand the skills base you have and what you are going to need over the next five years. That is critical.

Lord Rooker: I missed one of our sessions on the Bank of England, so I was forced to read the 18,000-word transcript. I picked up the criticism that the academics involved were not very well published. Is this a factor that has figured in your calculations at all?

David Roberts: I cannot answer that question about the specifics. I have seen a couple of comments that I would push back on. I do not accept at all that there is a trade-off between diversity, in terms of protected characteristics, and capability. If you look hard enough, there are always stunningly talented people from different backgrounds. It goes back to the point we were just discussing; you need a balance.

Lord Davies of Brixton: Just to be clear, you are saying explicitly that the shortage of potential candidates is not the problem you see.

David Roberts: To be on the FPC, PRC or MPC is something that a lot of people see as an honour. They see it as a phenomenally interesting opportunity. The people who serve in that also see it as an opportunity to help the country, so there is good motive in all of this, but then there are practicalities. First, the conflicts and ethics point is a very significant one, and rightly so.

Secondly, there is availability and all of those issues. Is there a significant group of people clamouring at our door to come and do this? No, not necessarily. We have to work hard to find them. The point I am making is that, even within that pool, I am interested in diversity of thought, first and foremost, but also in diversity of experience. I look at some of the people who have served or are currently serving on the MPC or FPC. You can find people of incredible skill, but you have to work hard to find them. That is what I am trying to say.

Q182 **Baroness Kramer:** I am the first of those who are going to ask questions on the Independent Evaluation Office. If you could help me with a scene-setting question, looking from the outside at the IEO—tell me if I am wrong—it is recruited by the Bank of England. In fact, there is a lot of crossover of staff, especially at senior level. I think the person running it now came from the Bank of England. It is resourced by the Bank of England; it is sited within the Bank of England; and its work is commissioned by the Bank of England. I am struggling to understand the word “independent”.

David Roberts: Let me start by spending a couple of minutes on the IEO itself and then answering some of your questions. It reports directly to me, so it is not in the executive line. I see Melissa Davey every week or every two weeks, and I am responsible for pay ratios, career opportunities and so on.

It has a small expert staff. They are drawn from the Bank, but quite often they are people who have gone out to do other things and are looking to come back, so there are people with some external experience. What it does is commissioned by the Court. Do I ask Andrew what he thinks he would like? Yes. Does it sometimes overlap? My experience, from what I have seen in the past, tells me it does. Does it always? No. There is a trade-off there, and there is always a conversation. For the current one, on data, Andrew and I were in violent agreement that this is something we desperately need to do, and that is why we are doing it.

It is a small team of expert people. The lady running it, Melissa Davey, is very talented. She has been running it for eight years now, so she is experienced. The really important point is, however, that it is always supplemented externally. It always has external advisers and a large external network that it uses, because we are all prisoners of our own experience and therefore, we need to challenge ourselves. It has significant input from the non-executives as well. For instance, you will not find many people more skilled than Ron Kalifa when it comes to data.

You have to be clear. There are two risks that the IEO runs. One is of capture and undue influence, as you have highlighted. The other is narrowness of view, which I mentioned. The guardrails are in place on both of those.

Sitting suspended for a Division in the House.

On resuming—

The Chair: Welcome back to this evidence session. I turn straight to Baroness Kramer to continue her question.

Baroness Kramer: We need to speed up a little, having lost time on voting, so I am going to try to pull together, if I may, questions on the output of the IEO. I wonder whether I can have your assessment of the work it has done in the past. I notice that the forecasting issue is one it addressed before, in 2014. It would therefore be interesting to hear whether, in your opinion, those lessons were learned and applied. Could you fill us in a bit more on how you decide on the direction and work programme of the Court?

Also, returning to the new forecast review, can you give us some sense of the timeframe on that and when it is going to feed back into decision-making?

David Roberts: Let me deal with those. In terms of the assessment, generally speaking, the work is of a very high quality. They draw on significant expertise; they get to the key issues. I am most familiar with

the one that is going on at the moment on data, which is going to be a very impactful survey.

Baroness Kramer: One of the reasons I ask that question is that an almost identical review was done in 2014.

David Roberts: Was that on forecasting?

Baroness Kramer: It was, and it seems to have come up with conclusions, the absence of which is the reason why you are asking for it again.

David Roberts: It is a slightly different one. I always say that reviews are interesting, but action is important. I have seen the IEO process on resolution, for instance, where it goes back and checks whether changes have been made and embedded. I cannot comment on the 2014 review, although I have a similar question to yours. I am determined that we will ensure that there is follow-through and action on all IEO reports; otherwise, we are wasting our time.

Baroness Kramer: Do you have timing for the new one?

David Roberts: I do not at the moment. We are in the process of working through the person to lead it, because we decided that, while the IEO is going to help facilitate it, we wanted external leadership on this particular one.

It is clearly dependent on where we get to on the detail of the terms of reference. That process will be ongoing and will be with the individual concerned. We will definitely publish those terms of reference as well. My final point is that we do not have to wait for the review to start some of the thinking.

Q183 **Lord Davies of Brixton:** I was going to ask about the policy committees, and we have already covered a lot of that. I just wonder whether you have any thoughts, as a relative newcomer, on this big issue of the size, composition and structure of the policy committees. Is this on your radar?

David Roberts: I am a big supporter of having the FPC and the MPC separate. I know that is a subject you have discussed in previous evidence sessions, but it is really important that they are in the same house under the same roof. Given the breadth of responsibilities both have and the breadth of skills needed to fulfil them, if you merged them or put them in different places, that would be much harder to do in the necessary detail. I think of it as a bit of a Venn diagram. The centre, which is where they interact, is important, hence common ownership is right. I like that split. It is valuable to have common membership.

The breadth of what both the FPC and the MPC are doing means that it is valuable to have a range of skill sets. On the PRC, having two people from an insurance background is important, given the nature of what it covers. A bit like the discussion we had earlier about having both

academics and people who have been in business, that is true on them all. Further to my comments on the MPC, there are people on the FPC and the PRC with that experience.

Looking forward, it would be helpful to have people who have a bit more lived experience in the consumer space, because that is becoming more and more important. It is powerful to have international representation as well. Is it top of my priority list now? No, there are other things. Would I like to understand the succession planning and the skill set mix, as we talked about before? Yes, I would.

A particular subject that has been raised is the internal and external numbers on the MPC. Let me just give you a perspective on that, which will start either a long debate or a short debate. The MPC is different, mainly because it has individual accountability to Parliament for the vote. I have less of a distinction between internal and external on that than on others, because I see and observe people who are very focused on their individual decision, whether they be internal or external.

What are you worried about if you have more external members than internal? To be blunt, you would be worried about bloc voting. I do not see any evidence of that. In fact, to the contrary, I see as much diversity within the internals and the externals as I do between them. I see significant challenge to the thinking from the likes of Sir Dave Ramsden and Sir Jon Cunliffe, as well as Ben Broadbent and Huw Pill, so I am less focused on that. I am absolutely alert to it, but the individual accountability is a useful, powerful safety net to that risk. That is why I am comfortable with where it is at the moment.

Q184 Lord Layard: Could we perhaps go back to the question of reviews? As you have explained to us, at the moment reviews happen when the board decides that there should be a review. We have been told that the Bank of Canada has a different system, which is that reviews happen automatically. Every five years there is an automatic review of all the different operations of the Bank, willy-nilly. That has to happen. What are the pros and cons of an automatic system, where you do not have to be alerted to a problem because you have to look for it anyway?

David Roberts: They are slightly different. The IEO is a rolling programme, so it is not episodic. There is always an IEO review. We are already thinking about what the next one might be after the one that we are just about to start. That is a rolling programme looking at the particular priorities, looking very much forward, but occasionally looking backwards at lessons learned as well.

In terms of a more formal review of mandates, the MPC mandate, which is for the Treasury and not for us, is every five years, if I remember rightly. The Reserve Bank of Australia's review has just concluded something very similar. I am slightly over my skis here, but I think I am right that the provision on the mandate and remit of the MPC is every five years. Both can co-exist comfortably as long as they are on different things.

Lord Layard: I am thinking more of the internal operation. The remit is a separate question. Is there not an advantage in having an automatic review?

David Roberts: I have changed the way we do this. Every year, I do a review of the committee on a rolling basis. I have done one and I am just about to start another. The Court has a review every three years in line with corporate governance standards, so we do a programmatic, formal look at the operation of the committees.

Lord Layard: Do you look at other aspects of the internal working?

David Roberts: Yes. We have a range of things to do that. We have KPMG looking at the finances through the structure. We have an internal audit that is very powerful and very good, in my judgment, based on what I have seen. The National Audit Office looks at the similarity of treatment between the subsidiaries where there is an indemnity in place in the Treasury. It also does other reviews; it did a value-for-money review in 2018.

There are multiple ways in which internal operations are assessed, the most important of which is by the management, who should be looking at what is best practice and how we improve. Then the Court also has to oversee that.

Q185 **Lord Londesborough:** Picking up on the interesting comment you made earlier about not liking the word "Court", can I take that a step further? What are your views on the argument put forward by one of our witnesses, Sir Paul Tucker, among others, that the Bank of England should have an executive board rather than a Court of directors, as the ECB, the Federal Reserve and central banks in countries such as Canada and Sweden do?

David Roberts: I read Sir Paul's testimony with interest. Again, the Court is different and has continued to move. If I look at the ECB governing body, the governors take monetary policy decisions. They have little, if any, responsibility for the operation of the central bank. That is in the executive body with no challenge. I argue that we have way more challenge and holding to account than I understand the ECB to have, because we are structured by having a set of non-executives responsible and accountable for ensuring the Bank delivers on what it is meant to do.

The most recent stand-back look at a central bank is the Reserve Bank of Australia review that has just concluded. I am sure you have looked at it, but it concluded on a model very similar to the one in operation here.

I have worked in Europe, so I am familiar with European governance and the supervisory board structure versus the managing board structure. It is different, and I think it can work well. The model we have works well for here and our context. You would end up with less direct challenge if you relied on an executive board.

The final thing I would say is that Andrew has one. It is called the governance committee. It has the governors, the deputy governors and the chief operating officer, supported by three subsidiary committees: the executive risk committee, the executive operations committee and the executive policy co-ordination committee. That is the way in which it operates, which looks a bit more like a corporate in some respects.

I would be very nervous about legislating how the internal operations should be set up, because they should be fluid. They change. They are partly driven by the personality and style of the governor of the time.

Lord Londesborough: Has there been any conversation between the Bank and the Government in this regard?

David Roberts: Not that I am aware of. The encouragement I receive from the Treasury is to fulfil our duties and to do our job to the best of our ability.

Lord Griffiths of Fforestfach: To what extent will the committees you just mentioned overlap with what you do in the Court?

David Roberts: For instance, the executive risk committee reports to the governor and provides input to the group—or Bank—audit and risk committee, so it is a means by which the executive manages risk within its delegated authority. Anything outside that or anything we are interested in goes directly to the audit and risk committee. You would find it very similar in all corporations.

Lord Griffiths of Fforestfach: So the Court has overall responsibility for risk management, compliance and so on.

David Roberts: Absolutely, it must have.

Q186 **Lord Blackwell:** I would like to raise some issues just to understand a bit more how you see this question of independence, which is part of the fundamental structure that you have inherited. It is not something you created.

When it set up the current structure, Parliament decided that, although Ministers were responsible for a lot of important things, including conduct awards, monetary policy should be delegated to a group of experts who were independent. It is now not the Court that takes those decisions, as you have explained; it is delegated from the Court to the FPC and the MPC.

We have a group of experts who have been appointed at some point and are trusted to take these decisions. That is fine if they get it right, but independence is taken to mean that they cannot be challenged. Who are they accountable to? Does independence make sense in that respect?

David Roberts: On a minor technical point, the Court delegates the financial stability strategy, which we touched on earlier; it does not delegate monetary policy. That is direct and separate. The delegation is

to the Monetary Policy Committee in the statute, not via the Court—I say that in case anyone picks me up on it.

On the key point, they are absolutely accountable to the British people. To come back to the point I made earlier, I can deal only with the people I see today. People feel deeply that sense of accountability and responsibility. To some extent, that is more important than some of the other methods, because that is causing them to hold the consequences of their decisions very tightly.

I go to charities, citizens advice bureaux and food banks. Andrew goes out every month. The other people do; the external members do. The MPC members feel viscerally the challenges of the environment we are in at the moment and how that matters to people, particularly those who are at the lower end of the income spectrum, who are carers, who have mortgages or whatever. For me, that is an essential point. They have to feel it viscerally. The Bank is of the country, not of London, and we need to make sure they feel that. You did that when you were at Lloyds. I know that from when I was there too. That is my first point.

Secondly, if I can distinguish between internal and external accountability, the Court is the internal accountability mechanism. You should hold us to account. We should be scrutinised. We should, as we do episodically but not very often, come to talk to you and to others on issues.

The external accountability is to Parliament. That is clear. You will not like me for saying it, but it is for Parliament to decide how it wants to effect that accountability. The point I would make, which might not make me popular in every quarter, is that, with the demands of the clock speed of change and the nature of how regulation, technology and the interface are all changing, it is a tough old ask if you do not have the right level of resources to support you. I can understand that, but it is about support in a scrutiny role, not in a second-guessing role, because that is quite dangerous. That is a fine divide, I understand.

The Bank's view and my view is that there are many sources of accountability, including the press and the commentators, who are certainly exercising their accountability muscles to the full at the moment. That is good and we should not be defensive about that, but we are accountable to Parliament and we will fulfil that to the best of our ability. We have a very high market share of appearances. It is for you to judge the effectiveness.

Lord Blackwell: Parliament, as you say, has to work out how we want to exercise that accountability. Clearly, it is a group of experts, but the decisions being taken are not just technocratic decisions. There are judgments there that affect real people's lives.

David Roberts: Absolutely, there are, and therefore accountability matched with scrutiny is a powerful thing that should be in place.

Lord Blackwell: Can I then raise the question of having a single target for the MPC? I know there are other “have regards”, but essentially the Bank, through the MPC, is the independent force in the economy responsible for keeping inflation at 2%.

When the Bank was set up and that was given to it as a responsibility, people probably did not envisage the experience of the last couple of years. It is one situation where you have a stable economy and a touch of the tiller to keep aggregate demand in balance with aggregate supply. You have mentioned, and Andrew put great stress on, the number of external shocks that drove inflation up and were not initially to do with excess demand but with supply-side shocks.

Was it an achievable objective to say that the Bank of England was responsible for ensuring that inflation stayed at 2%? Given the situation we were in, to have sought to achieve that, as Andrew himself said to this committee, the Bank would have had to engineer a tremendous recession in a way that probably was not achievable anyway. Again, all those are judgments that have huge trade-offs with other aspects of government economic and social policy.

Does the experience of the last few years raise the question of whether it is sensible to say, “Over here is the Government, who are responsible for fiscal policy and everything else; over here is the Bank of England, and we’re going to hold the Bank of England solely and independently responsible for 2% inflation”? Given the situation we have been through, as opposed to the situation 10 years ago, these are judgments and responsibilities that need agreement, consensus and discussion between the Bank of England and the Treasury, rather than blaming the Bank of England and saying, “That was your job”.

David Roberts: That comes with the territory. This is a question where, as I said before, I am a bit out over my skis, if I am honest. I look at the remits of similar monetary policy committees around the world and they are all subtly different.

Let us be clear. The Bank has a singular focus on getting inflation back to target, which we will do. To have totally avoided the consequences that sadly we are facing at the moment would have required an unusual degree of foresight. I come back to whether there are lessons to be learned. Yes, there are, and you have talked about some of them today.

There is always a question of timing. How long does it take to get back to your target? The remit is clear. It is within a period of discretion of the committee. It says that in as many words. My judgment is that now is not the time to consider changing that remit. Now is the time to absolutely double down on delivering on the target, and then we can think about it if people think it sensible. I do not know what the right answer is. As I said, it is not something I would have significant insight and experience in. There are many better people, including around this table today, who can contribute to that.

The Chair: What do you mean by “double down” on the target?

David Roberts: Make sure that we deliver it. Just to be really clear, now is not the time to consider the target; now is the time to deliver the target.

Lord Blackwell: I was not necessarily challenging whether you want to change the target, but now might be the time to ask, "Does this need more concerted action between the Bank of England and the Treasury, with joint responsibility?", as opposed to saying that inflation is solely a matter for the Bank of England.

David Roberts: We take the Government's declared fiscal plan. That is one of the conditions of our forecast and our thinking. There is considerable interaction between the Bank and the Treasury on these issues, but we have separate responsibilities as laid down in the statute. One of the things we have to be very careful about is that we do not exceed our remit and our mandate.

If you look at what the Government have said and done, there is a recognition that their actions have consequences, but let us be clear: we are accountable for the target and we will deliver the target.

Q187 **Baroness Kramer:** I just want to push a tiny bit on that, because you said earlier—and I am entirely empathetic with the idea—that we are in for a period of rolling, severe shocks. We are looking at instability very broadly. This is going to continue not for six months or one year but for a prolonged period.

David Roberts: Just for the external audience, I mean different shocks, not necessarily the one we are in at the moment.

Baroness Kramer: Exactly—the bullets are flying over various parts of the ramparts. Does that lead you to look at the fundamental remit in a completely different way? In a period of stability, you can probably pick a number and work sensibly towards that number. It builds confidence and people structure around it. In a period of long-term instability, does thinking have to change here? Does anything that you do and the kind of research work that you are doing help us to get to better answers for a period of prolonged instability?

David Roberts: The remits do not have to change. The business model of the country is an open economy with many players. We get great benefit from London as a financial centre, including the 2 million people in financial services who live and work outside London. There are incredible benefits to this country of its financial services strength. Everything I hear from the people I talk to of the big banks and insurers that do their global business here is that the confidence, stability and predictability of the regime and the framework are enormously powerful and influential in their thinking.

I am not sure how easy it is, because every shock you get is different. We need to prepare the Bank, in the way it thinks and acts, the way it resources and all those things, to be able to respond to the unknowns in order to deliver its remit. I agree with that.

Do you change the mandate? I do not think so. The mandates and the architecture are important, because that gives significant confidence. Look at the time when it was challenged. There is a famous James Carville quote about coming back as the bond market if reincarnated. We see what happens when people start to question the institutional framework that we have set up, which internationally is respected and is a source of great support for inward investment and inward financing of the country. We must be very cautious in changing that. We undermine it or suggest that it is up for grabs at our peril.

Lord Blackwell: One specific area of interaction with the Government is around the balance sheet. Again, we have been through a period when the Bank's balance sheet has expanded rapidly. Some would say that it has accommodated the Government.

David Roberts: There are many views on that subject. It has not accommodated government borrowing. There was no monetary financing.

Lord Blackwell: You said earlier that the Court is responsible for the balance sheet. Are you comfortable that the independence of the Bank of England, the management of its balance sheet and the interaction with the Treasury on that enables you to do that independently?

David Roberts: This is a really important question, so thank you. What is the role of the Court? If we are doing any particular interventions, it is to assess that it is within our normal risk tolerance. If it is not within our normal risk tolerance, it is to ensure that various arrangements are put in place to make sure that it is within our risk tolerance. That is our role.

When it comes to things that are outside risk tolerance, the general way in which this has been resolved is through the use of an indemnity from the Treasury. That is an important plank of independence. It is different in different central banks around the world. I accept that, but you do not want either your MPC or your FPC taking decisions and worrying about the structural capital integrity of the central bank. You want them to take the decisions to fulfil their mandate. The way that is executed is through the indemnity. That is an important plank of independence.

When we, as the Court, are looking at these operations, we should, and often do, ask ourselves, "Is this within the remit and appropriate to the role and scope of the central bank?". That is another important question. I would describe it as being alert to what you are saying, but I do not see this risk transpiring at the moment.

Q188 The Chair: Can I quickly ask a question about the oversight committee, as was? In the 2016 Act, the Government abolished the oversight committee, which was a body comprising just the Court NEDs. I will read, for the sake of anyone who does not know it: "The oversight committee of Court, consisting solely of non-executive directors and supported by an Independent Evaluation Office, reviews and reports on all aspects of the Bank's performance".

I say this from bitter experience, as I tried to convince especially

Baroness Kramer why this was a good idea. A number of people raised doubts about this and said it was a retrograde step because it would undermine the Bank and the Court's ability to challenge groupthink and to scrutinise the Bank's performance. As a newcomer, would you welcome the re-establishment of that body, given how it used to fit quite well with the IEO?

David Roberts: I was not there, so I cannot judge its pluses and minuses at the time. What is my analogy? I come back to a corporate board. A corporate board is a unitary board. Decisions and discussions are enhanced by having management there, as long as the non-execs have the capacity, capability, information and the climate of that board to be able to challenge, which I see as central to the effectiveness.

It also happens at every board meeting that we have time with the non-execs on their own. We are trying to get the best of both worlds there. Having non-executives operating on their own or non-executives just with the governor is a model that is incredibly important.

Q189 **Lord Griffiths of Fforestfach:** To whom are you accountable?

David Roberts: I am accountable to the British people through the democratic line of Parliament.

Lord Griffiths of Fforestfach: Who gives you an annual review as to how you are doing?

David Roberts: It is the senior independent director, Sir Ron Kalifa. Ultimately, the 100% shareholder is the Treasury and the Government. If they do not like what I am doing, they can change me. It is the same as a corporate in that instance.

Lord Griffiths of Fforestfach: Do you have any supervision of what you do from the Treasury as the shareholder?

David Roberts: Not really. It is not quite an agency model of a corporate. Again, it is subtly different. The oversight of me comes through the senior independent director, which is exactly as you would have in a corporate. I talk to the Permanent Secretary of the Treasury fairly frequently on matters. He certainly gives me the benefit of his insight on things, and I would do the same. That is an important relationship. I am certain that, if they were uncomfortable with what I was doing, I would know.

Lord Griffiths of Fforestfach: Who appoints the senior independent director?

David Roberts: The Court of directors, approved by the Chancellor. It is the same for the deputy chair.

Q190 **Lord Rooker:** I have a very narrow point on independence but, before that, are you in a position of an accounting officer role?

David Roberts: No, not as I understand it from my previous public sector roles. I suspect Andrew probably is the accounting officer or equivalent, but we are independent and separate. We are a company. You can argue that it is a tax on the financial services sector, but pretty much all our funding comes from the industry.

Lord Rooker: There are a lot of people outside misreading what we are doing on this committee. We are looking at the Bank of England: how is independence working? That is it. We have had some criticism from experts that queries the independence, if I can put it that way, regarding too many ex-Treasury officials serving as deputy governors.

I do not know whether the four came from the Treasury to the Bank but, in my experience as a Minister a while ago, when I was at the Home Office, our Perm Sec left the Home Office and went to the Bank of England as deputy governor. Previously he had been at the Treasury, so he would count as an ex-Treasury official.

David Roberts: Ben Broadbent would fit that characteristic. He did not come directly from the Treasury.

Lord Rooker: That is right, so I take it with a pinch of salt. I do not know the background of these ex-Treasury officials. Does it look, perception-wise, as though it compromises independence?

David Roberts: That is a valid question. The critical factor here is the right people, core skills and diversity of background, thinking and experience. I was not here when they were appointed. If I look at Sir Jon Cunliffe, Sir Dave Ramsden or Ben Broadbent, who are the three from the Treasury, I have not seen a scintilla of evidence that their background in the Treasury compromises their independence. In fact, I would argue to the contrary. They are prime proponents of independence. They are all incredibly skilled, talented and with different experiences, and they are certainly not shy of expressing a view, as those of you who know them will know.

I do not worry about the fact that we have three people now who have, in their background, the Treasury. Jon has done many things other than working in the Treasury. What do I think as we go forward? We are doing the deputy governor financial stability at the moment, as Jon Cunliffe is retiring—or finishing his second term, I should say—at the end of October. Can they do the job? Will they enhance the cognitive and experiential diversity? Will they add to the leadership capability and capacity of the organisation?

It is not to be underestimated that we have 5,000 people. We run big operations. Over the weekend, we just did the first stage of a heart and lungs transplant on our core payment system, real-time gross settlement. Thankfully, as of today, it is going fine. That is a big undertaking. There are other dimensions that need to be in this discussion.

Also, will they grow with the job? The skills that are going to be required over the next five or 10 years are going to be quite different, in some respects, so you always have to look forward. Will they be a challenging and effective team player? That is my characteristic. Then it is the best man or woman who is able to fit that. If they come from the Treasury, that is coincidental, but you have to look at the consequence of individual decisions also in the aggregate.

Would I worry if people had the same background and experience? Yes, I would. That is a problem, going back to the groupthink conversation, but I do not rule in or rule out the very fact that they might have spent some time in their career in the Treasury as being either a big advantage or a big disadvantage.

I will make one final point on this that is very important as well. There should not be a prejudice against people who have had their career within the Bank. Of the last four deputy governors, other than Andrew, none has grown up in the Bank. Each of the decisions makes sense, but it would be a really bad thing if there was a prejudice against internal appointments.

I am saying nothing in the context of the current decision, by the way—just in case anyone reads into that—but over the next five years every deputy governor changes, and we should be open and willing to accept that people who have spent time in the Bank are very skilled. There is benefit in having some people who understand that. Nor should everyone have it, to be clear, but I just wanted to make that point as well, because it is an opposite point to the one you raised.

Lord Rooker: That is very helpful. Thank you.

- Q191 **The Chair:** I have two final questions. The first is a macro one about remit and remit letters. We have been hearing evidence that they have become—and you only have to read them to see this—increasingly complicated, with “have regards” and “to consider”, and lots of quite opaque language, which in and of itself can cause confusion. The more material point is that it appears that the Government have been outsourcing particular policy areas to the Bank. Do you think that we should get out the secateurs and the Government should prune it back so that you get more focus, or is that not necessary?

David Roberts: I start from a principle that organisations work at their best when they have clarity and simplicity of objectives and goals. You have three very different remit letters. The MPC one is quite tightly focused. I think I am right that there are 31 “have regards” or something close to that in the PRC. I have a lot of sympathy with the view that there is a time to stand back, look at it and have a view.

It is important, though, that we should look at the goals in the context of the primary objectives. Andrew said this last week. I have read some people asking, “Why is the Bank looking at climate?”. Let us take the PRC

and the FPC. If you look at their objectives and climate through that lens, it absolutely should be.

On the industry side, it is very valuable to be challenged because, if you are putting long-term assets or long-term liabilities, depending on whether you are an insurance company or a bank, and you do not understand the climate consequences of those, you are not looking at the risk. That is one example. We have to look at it through the lens of our primary objectives. Do I think that we should look hard at the remit letters? Yes, I do.

The Chair: On climate, I see that the ECB has its foot on the accelerator, really hammering it on climate. The Fed has its foot on the brake saying, "It's not our responsibility". We seem to have our foot on the clutch a bit. We are not sure quite which way it is. Is that fair?

David Roberts: That is unfair.

The Chair: Should we have our foot on the accelerator more?

David Roberts: No. If I look at it through the lens of our primary objective of financial stability, we should be looking at the financial stability implications of a rise in climate. The most important thing is that we should be challenging the firms on whether they are thinking about it, as we are doing.

The Chair: Sure, I hear that, but then you could say, just from a layman's perspective, that the Fed is wrong to be not looking at it at all.

David Roberts: I am not going to go into that territory.

The Chair: Surely one could argue that we have elevated climate as a risk to a level above many other long-term risks.

David Roberts: I do not agree with that. If you look at scale and impact, and you look at the focus on, for instance, operational resilience and cyber, or the thinking that we have been starting to do on artificial intelligence and how that might start to impact the industry, I do not agree with the statement that says we have elevated it. We are looking at this risk through the lens of our primary objective. Back to your point, that is where we should stay. If we go outside that, we are in difficult territory.

The Chair: Just so I am understanding you correctly, are you saying that the secateurs should be brought out to prune it back in such a way that it is focused on those primary objectives? It does not exclude you doing other things, but it gives the focus to the Bank.

David Roberts: The remit letters should be focused, simple and supportive of the primary and, where appropriate, secondary objectives. Let me just touch on that one. I know that is another area of significant debate.

I am strongly in favour of a secondary objective, as it is done for the PRC, for instance, on the competitiveness. The financial stability of the graveyard is a real risk so, in my personal judgment, there needs to be some counterbalance to that, which is the way that the secondary objective is set.

I can see that you are looking at colleagues, so this is maybe not going to be a short conversation, but that is fine. That counterbalance is important but, in my judgment, it has to be secondary because the primary objective overrides all the time. It also has to be in the context of international standards for the same reason that we are an open economy where risks flow, and a critical part of our financial centre is driven by the interaction with international standards.

Q192 Lord Turnbull: You are using two connecting phrases between primary and secondary: first, "subject to that, X, Y and Z" and, secondly, "have regard to".

David Roberts: Yes, they are different.

Lord Turnbull: I think you are probably saying that you prefer "subject to that". It makes it clear.

David Roberts: To me, primary and secondary means that primary is always the dominant factor. The secondary objective is secondary, as in the name, but it should not be seen as not important. That is the other thing.

Lord Turnbull: If it says "have regard to", you are implying that, although it is a secondary objective, you really have to look at it.

David Roberts: No, because there is a hierarchy. There is a primary objective, a secondary objective and then "have regards to". The issue there is that, individually, people can make their own judgments. I am not going to go into them but, individually, each of those "have regards" are, in the eyes of the Government, important.

In aggregate, however, there are a lot of them. Of course, being the obedient organisation that we are, we take account of them seriously, and that places on us a significant onus. It also slows down decision-making in some respects. One of the challenges for all organisations is to try to remove complexity as best they can. I do not think there should be none, but there probably should be fewer. For me, the hierarchy is clear: primary, secondary, "have regards".

The Chair: We have opened a can of worms rather late in the day. I am sorry. It is my fault because I asked the question.

Q193 Lord Griffiths of Fforestfach: Last week, Andrew Bailey gave evidence on just this point. I went back to read specifically what he said about this issue. He made it very clear. He said, "In terms of the MPC, our primary responsibility is inflation. To the extent that we look at climate change, it is through that prime lens". He also said, "Frankly, in that respect, that is

an issue for government policy, not for the Bank of England". Then he went on to say, "However, when it comes to the FPC and so on, there we do have a responsibility in terms of the risk of the institutions".

I then went and googled what the Bank does in terms of climate change. To my surprise, going back to 2019, the Bank is up to its neck in climate change; it is part of some big forum on climate change and so on. There is an element in the Bank, led by Sarah Breeden, that is, I feel, totally committed to this area, so that it would be almost indistinguishable from government policy.

The Bank is obviously interested in the impact of interest rates on house prices and mortgages, but if the Bank had a remit on housing you would be into all sorts of issues, such as planning. I take the point that Andrew was making. You are trying to distinguish a primary responsibility through a lens. The inflation lens is one; the financial stability lens is another. Can you make that clear distinction?

David Roberts: First of all, I have to push back, if I may, on "up to its neck in climate", which were the precise words you used.

Lord Griffiths of Fforestfach: It is just the volume of material that I saw.

David Roberts: We have published some things; you are right. We are perceived as one of the central banks that have put the most effort into this. You also have to distinguish between, on the one hand, the Bank as an institution with its own climate goals—we have the same TCFD reporting and everything else—and the other side, which is its impact on policy.

If Sarah was here, I think she would say that we always look through the lens of the primary objective. We have done stress tests and exploratory stress tests for the industry on climate-related risk. I know that because I was there at Nationwide when that was done, and in Beazley when I was there on the insurance side. That was incredibly powerful because it drove some thinking, standards and inputs that helped firms to understand some of the risks and to get benchmarking, which is always phenomenally powerful for the firms. The climate-related work is very much through that lens, so you can distinguish. I agree totally with your comment on housing.

Q194 **Baroness Kramer:** I just want to follow up on this competitiveness issue. Lord Eatwell very correctly described the final version of the Financial Services and Markets Bill as setting secondary objectives for competitive growth as "secondary-plus-plus". There is now an expectation in the industry that the Bank will get right behind competitiveness and growth. They will be pushed forward very aggressively until they demonstrably smack into financial stability. My great fear is that, at that point, you are too late.

I want to understand how you interpret that, along with the various reporting requirements, judicial reviews and clauses in trade agreements, some of which basically mean that, if within the trade agreement the

other party has much greater flexibility in a regulatory environment, that is allowable. I am very concerned about it and I would like to hear your comments.

David Roberts: Competitiveness does not mean a race to the bottom; nor does it mean a race to the top. What we are seeking to do, and what Sam Woods has also talked about, is to ensure that, if we are comfortable that we have the right financial stability in place, we then are aware of the relevant positioning of where we are relative to both international standards and other big jurisdictions.

Let us be clear, because your concern is absolutely valid: we will not trade off competitiveness against financial stability, because that is our primary objective.

Baroness Kramer: I question this. From your perspective, you do not know that you have hit the trade-off to the point of damage until you have done the damage. The industry expectation is that you will now push full speed ahead.

David Roberts: The industry expects us to be under an obligation to think about it. I suggest that a lot of those in industry are looking for predictability and alignment with international standards, because that is how they operate and what is important to them; that is what they tell me. They like the fact that the regulation is predictable and is in line with international standards.

Will they all talk about the elements of things that are important to them? Of course they will. What we have to do is to be clear that we look through the lens of financial stability and then look after that at areas where the UK can be internationally competitive, but we will not do that at the expense of the financial stability objective. We analyse it thoughtfully and carefully to the best of our judgment. Industry pressure is as insidious as the other pressures we have talked about today. We have to be independent of that too.

Q195 **The Chair:** Can I ask you one final question about where we are now, given your extensive experience, including at Nationwide? I am obviously not asking you to comment at all on decisions that might be coming up.

I am just interested in your views about how sanguine or otherwise we should be about the challenges that many mortgage holders are going to face in the months ahead as they re-mortgage, and whether you think that the new affordability rules that were brought in—they are not so new now—or that currently exist will be adequate to cushion them from the rise in mortgage payments that they may see.

David Roberts: I have not been at Nationwide for one year now, so I am out of date, but I read its annual report with a degree of interest, as you would imagine.

First, the affordability tests that were brought in, in 2015 or 2016, were good things. The vast majority of people on fixed rate coming off have been stressed at 6% or 7% interest rate, roughly, or certainly 5%. They

have helped. That was a useful and powerful intervention by the FPC. That is a good example of the FPC in action.

Secondly, consumers and businesses are not stupid. They have seen the stresses coming. They are able to take actions within their own discretion to change their expenditure or income patterns. The flow-through is renters as well as mortgage holders.

Let us be clear: I have huge empathy. Again, back to my and Andrew's citizens advice, we hear it at first hand. Let us not, in anything I am saying, undermine the fact that it is very difficult for some people, but it is very different from the financial crisis or the flow-through in 1992. I still remember the day Jill and I walked home when rates went to 17%: "What are we going to do now? It's more than our income". I will never forget that day. It is not the same as everyone else; I do not want to make that point. I do not have that understanding of what it feels like today if you are in real trouble, but I have some understanding of it. The move to fixed rate gives people time.

Finally, I hope that the financial services industry is using the tools it has at its disposal through rescheduling or term extensions, et cetera, as long as it is the right thing for that customer. I never underestimate what consumers and businesses can do themselves, although I recognise that there are those for whom it is extraordinarily hard. There are 5,000 people in the Bank. We have a lot of people who are at the lower end of the income spectrum, whether in our payments teams, our security teams or our notes production teams. I talk to them and they have exactly the same issues. They are doing stuff, but there comes a point.

Some of the press headlines are perhaps a little bit, or quite a lot, over where my own judgment would be about what I think could happen, but there is a segment out there for whom this is very hard.

The Chair: Thank you very much indeed. We are all incredibly grateful not just for your time but for your incredibly comprehensive answers to questions on a wide range of subjects. We are grateful for you coming in today.

David Roberts: I look forward to reading your pronouncements and judgments in due course. Andrew and I are happy to do whatever we can if you want to talk to us again.

The Chair: Thank you for that.