House of Commons

Treasury Committee

Oral evidence: The work of the Court of the Bank of England, HC 2085

Wednesday 1 May 2019

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Watch the meeting

Members present: Wes Streeting (Chair); Rushanara Ali; Mr Steve Baker; Colin Clark; Charlie Elphicke.

Questions 1-78

Witnesses

I: Bradley Fried, Chair of Court, Bank of England, Baroness Harding of Winscombe, Chair of the Remuneration Committee, Bank of England and Dorothy Thompson, Chair of the Audit & Risk Committee, Bank of England.

Examination of witnesses

Witnesses: Bradley Fried, Baroness Harding and Dorothy Thompson.

Q1 **Chair:** Good afternoon and welcome to the Treasury Committee. You will notice that I am not Nicky Morgan, the Chair of the Committee. She extends her apologies; she has other commitments this afternoon—not least grilling the Prime Minister at the Liaison Committee. The Prime Minister's gain is your loss—you are stuck with me.

Before we begin and for the benefit of anyone watching this session online, live or afterwards, would you like to begin by introducing yourselves?

Dorothy Thompson: Hello. I am Dorothy Thompson. I am a member of Court and chair of the audit and risk committee.

Bradley Fried: Thank you, Chair. I am Bradley Fried, the chair of Court.

Baroness Harding: I am Dido Harding, the deputy chair of Court and chair of the remuneration committee.

Q2 **Chair:** Thank you very much for joining us this afternoon. Unsurprisingly, I am going to begin with what is perhaps an obvious set of questions about the replacement of Mark Carney with a new Governor.

Mr Fried, what consultation did you have with the Chancellor before his announcement that a new Governor will be appointed in October this year and will start their term in February?

Bradley Fried: As you might know, I am one of the four interviewing panellists. The consultation was done through the panel. It was a pretty extensive consultation that started with a discussion around the role itself and then a quite intensive process around the appointment of a headhunting firm. We decided to appoint a headhunting firm. We went through an extensive process to appoint one. We are delighted with the outcome of that appointment, specifically because of our confidence in the appointed firm, Sapphire Partners, and its historical track record, and our view of its ability to develop a very distinctive diverse shortlist for us.

Obviously we have the departure date for Governor Carney fixed at the end of January. Our view was that too much time between his departure and the appointment of a new Governor would not be a particularly helpful thing. On the other hand, too little time would be problematic too, so we had to figure that out very carefully. As a result of that, those dates were set. The thinking was to get the programme started now. The job advertisement went out. The role description is out and 5 June is the date for all applications to be in. It is the Chancellor's intention to make the appointment around October, with the intention to start on 1 February.

Q3 **Chair:** Unsurprisingly, there has been a significant amount of speculation in the media about the types of candidates or the type of field that the Bank is looking to cast, and you have been inundated with the recommendations of various columnists on what the shortlist should look like.

Bradley Fried: We have been.

Q4 **Chair:** I'm not going to join in on that, but you will have noticed some of the commentary suggesting that at this particular moment in time, given what is going on around here, particularly on Brexit, this role is a poisoned chalice. How are you encouraging the best candidates to come forward? What is your pitch to candidates nationally and internationally who might be thinking of applying, on why this is a job that they should be falling over themselves to secure at this time?

Bradley Fried: Let me start by saying that I believe that it is exactly such a job. The Chancellor made the point about the uncertainty about Brexit, and Brexit has cast a great degree of uncertainty over the country, but this is a hugely important role, nationally and internationally, and we fully expect it to attract serious candidates. I note that the Chancellor said that the role is now more important than ever before and requires somebody of the highest calibre who can command respect internationally as well as doing a first-class job domestically. You can see from the job advertisement that we are not exactly aiming low. We are aiming very high. It is a huge job in anybody's terms because arguably it will become bigger yet as Britain sets out its stall in global trading relations post-Brexit.

Britain is the world's sixth largest economy. It is an incredibly open economy. It has got one of the world's most heavily traded currencies and it is a huge financial centre. When we look at this, there is an idea of resetting life after our exiting the European Union, which will present challenges but also great opportunities. Change is coming. As far as the challenges are concerned, I suggest this to you: it goes with the territory. Every single Governor in living memory—I am 53, so I do not have too many Governors in living memory—has faced crunch moments, and I anticipate that the next Governor will also face very significant crunch moments.

Look at our current Governor. He has had to deal with post-crisis reforms, the Scottish referendum, pre-referendum Brexit and post-referendum Brexit. If we go back to Governor King, he had to get a grip of a global financial crisis and major issues. Eddie George had to deal with the Bank's independence. Robin Leigh-Pemberton had to deal with Black Wednesday. It comes with the terrain and we do not try to sweep that under the carpet. That is life, and we fully expect that the candidates who apply will be up for embracing that kind of challenge. That is exactly who we want.

Q5 **Chair:** This question is to all the panel. Mr Fried, last summer in our pre-appointment meeting with you, you spoke passionately about the attributes you would expect to see in a new Governor. I am interested in the views of the whole panel on the kind of attributes you would like to see. Mr Fried, you named a number of former Governors. We can go back through every Governor in history, and they all have one thing in common: they are all men. Are we confident at this stage that we might finally shatter that glass ceiling at the Bank and appoint a woman for the first time in the Bank's history?

Bradley Fried: If I could answer that latter question and perhaps invite my colleagues to touch on the attributes of the Governor, I think I spoke last time about the leadership, boldness, vision and brilliance in financial services and the expectation that they would become global leaders for the UK and be values-driven people. I want to touch specifically on the question of diversity. I note that you refer not only to the appointment of a woman, but to the appointment of a diverse candidate. It will be a brilliant moment for the institution when we appoint our first woman Governor, and it will be a brilliant moment for it when we appoint our first BAME Governor. These will be inspirational moments both for the institution and financial services more broadly—certainly for the nation. I think they will be internationally inspirational moments. The next Governor should be the very best person for the job, whoever they may be. We fully expect to see a diverse shortlist and make the best appointment, and I want to reiterate that those will be outstanding moments for us.

Q6 **Chair:** Turning to the rest of the panel, what kind of attributes are you looking for?

Dorothy Thompson: As the whole process was kicking off, one of the things Brad did was convene a meeting of all the non-executive directors of Court. We all sat round the table and discussed what we thought were the necessary attributes. Actually, there was amazing alignment.

I would like to add one specific thing to what Brad has just listed: in management terms, the Bank is becoming a very agile and modern institution, but it is on a journey; it has not fully got there. It is really important that whoever is appointed is a leader who takes that momentum forward.

Baroness Harding: Just to add to what Brad and Dorothy have said, the next Governor needs to be somebody who can look inward into the organisation, but outward into British society and the global stage. They have to be able to operate in those different environments, because there is a change agenda to continue to deliver internally. There is a huge agenda in setting out our stall nationally and internationally. Someone who has that ability to communicate and engage with a variety of different constituents will be really important—someone who is technically able to operate a very complex job. You can see in the job description in the advert that we are not setting the bar low in terms of the technical capabilities this person needs to have. That capability to lead an organisation and play a really big leadership role in the country is very important.

Q7 **Chair:** Thank you. You have all given a number of potential candidates a helpful steer as they complete their applications and make their own decisions. Before I bring in other members of the Committee, I want to pick up a bit further on the issue of diversity. At your appointment hearing with us, Mr Fried, I think you impressed on us your own commitment to diversity, and we have heard that reflected across the panel already.

Let's move on to some of the practical challenges. During the November Court meeting, the Court received an update on diversity inclusion and asked for a BAME action plan to be developed. The Governor has since written to us with an overview of that plan and the diversity taskforce actions that resulted from the exercise. Can you update us on what progress has been made since then and, in particular, refer to *The Times* story from February that reported that ethnic minority staff at the Bank were more critical of the Bank's culture on every single measure, including inappropriate language and behaviour, a failure to fit in having an impact on their career progression, a lack of transparency in hiring, firing and promotions, and the Bank's narrow recruitment base? Those are a number of really important areas where BAME staff have sent a clear message, and I am keen to know how the Bank is responding to that pretty critical feedback.

Bradley Fried: We were anticipating this question, because it is a very important piece of oversight. Our reporting back to you is one of the most critical matters on our Court agenda. Let me just rewind for a moment and talk to you about one process step that has happened since my appointment. I spoke to you about the things that will be critical to me, and about those aspects for which I suggest this Committee holds me accountable. On diversity, I think I said in my pre-appointment questionnaire that I would leave the most important until last. It was the most important and remains so. This has been a standing item on the Court agenda since my appointment, and so it will remain—it is a major challenge.

The scores from the diversity surveys that we did showed across the board that BAME staff felt less included across multiple dimensions than white staff did. As you can imagine, that is a major concern that was escalated immediately.

The promotion of diversity and inclusion is absolutely crucial to us. This is not a strategic objective; it is part of our DNA and it is an underpinning of everything we do. We have made significant progress on the appointment of female staff members, which you will see in our representation at senior management level and across the institution. We have made good progress against the appointment of BAME staff in the entire institution, other than at the senior management level; we have moved from 2% of senior management in 2013 to 5% today, against a target of 13% by

2022. That is the major issue if you look at a heat map of our challenges on diversity.

The other side of that coin is not simply the targeting, which is one matter, but it is the inclusion. We've recognised that a lot of work has to happen on the inclusion front now. I would say the most significant step that has been taken since that Court—the most significant and most recent step—has been the appointment of a BAME taskforce. It is a very visible and strategic taskforce, led by Sir David Ramsden. All the members of the BEEM network—that is the Bank of England Ethnic Minority network—are standing members of that taskforce.

It has three objectives. Objective number one is to ensure that we have the appropriate mainframe and inclusion leadership across the organisation, especially for BAME members across all the major appointment and staff categories, where mentoring and leadership is required to help them overcome hurdles that perhaps we just don't understand. We recognise that there are hurdles that we just simply cannot understand and we are trying to bottom them out. There must be subconscious biases and internal hurdles to promotion or to thrive in the organisation, and we are listening terribly carefully to those. That is the first objective.

The second objective is to give the BEEM network a place at the table for every single major decision and discussion when it comes to Bank hiring and retention. This is not an adjunct to what we are doing; it is core.

The third issue is that a lot of our benchmarking across major organisations shows us—and we have looked far and wide across the public sector and at major organisations across the economy—that you really have to understand the hotspots in BAME recruitment, progression and retention. We have to understand the data analytics very carefully and see where we are going wrong. This is not about warm words, Chair, and it is not about good intentions. I think you understand the motivation—I was very clear about that motivation—and that is shared by all at Court. It is not about that; it is about achieving results, getting the data and taking the actions to achieve those results. We recognise this is the greatest challenge that we have when it comes to diversity.

Q8 **Chair:** With that in mind, who is taking responsibility for this at the Court? You set the 2022 target out for us, but what milestones are there? How should we judge your progress along the way and what would you identify as the warning signs?

Bradley Fried: Let me answer the easy question first. The easy one is about who is taking responsibility. I invited you before to hold me accountable and I reiterate that point. If Mark were before you, I know he would say the same thing and perhaps there would be a race to see who would be held accountable first, but it's of no consequence. It is so important; we all find the accountability framework here very easy. You have to start with me.

Q9 **Chair:** What about the milestones, then? What can we expect to see along the way and by when?

Bradley Fried: If you don't mind, Chair, I would rather not specifically commit to achievement along that target. It would be superficial of me simply to make up these numbers, because I have not thought them through, but what we would expect is significant improvement in the diversity surveys that we do, for starters.

I speak to small groups and large groups across the Bank continuously about these issues. It is an intangible thing, but I would like to see a change in the mood. When I ask what it feels like to be part of the organisation, I would like to hear that we are addressing some of the invisible hurdles to promotion and the things that are leading to our retention numbers being problematic.

Our retention numbers are that we have a 9.6% turnover for BAME and 7.3% for non BAME. That is a major source of concern to all of us at Court, and how we address that is a big issue. There are a number of milestones. I cannot give you anything scientific, but I would say to you that there are intangibles, there are retention numbers, and there will be achievement of the target. Those would be three. Our minutes are very straightforward. We do not hold back, you will notice from our minutes.

Q10 **Chair:** No, and that will be important in terms of an ongoing conversation, because I suspect that you will not get everything right and there will be challenges, but the important thing is owning them and learning from them.

Bradley Fried: Absolutely.

Chair: We will come back to that. I am conscious that I want to bring in other members of the Committee. We share the same challenge, which is passion, and the impact that it has on our brevity. I will start imposing some self-discipline. I will bring in Baroness Harding, and then move on to Rushanara Ali.

Baroness Harding: I just wanted to back Brad up. As chair of Court, Brad has been holding us all to account in Court each meeting on this. If I were you, I would want to look at some of the leading indicators of change. Honesty about the current experience is a good thing, not a bad thing. I have not seen the cognitive diversity survey that you are quoting done in a lot of other organisations, because it is really tackling the lived experience of people.

One of the most powerful bits of evidence was that our BAME colleagues in the Bank felt that people talked over them more often in meetings than white colleagues. So did women versus men. *[Interruption.]* Rushanara recognises the phenomenon. It was quite a shock for the senior leadership of the Bank to see that in stark technicolour. I would be looking for honesty in the evidence. I would also be looking for our practical action, because this is easy stuff to say and really difficult stuff to do.

The Bank is experimenting, and testing and trialling some really interesting things, such as batch appointing at quite a senior level. There is a growing body of evidence that we all make less biased decisions if we appoint five people at the same time rather than five people in a row. The Bank has been trialling that for senior appointments, and it is starting to bear fruit. I would be looking, if I were you, for evidence of testing and trialling genuine changes in process and ways of working, and holding us to account. That is what I see in other sectors that is starting to drive change.

Q11 **Chair:** Thank you. Is there anything that you wish to add Dorothy?

Dorothy Thompson: No.

Rushanara Ali: I have just one supplementary on the diversity issue. You mentioned people leaving—according to the report, 23% of people from BAME backgrounds are leaving. Have you done any work to understand what is causing those departures, and what can be learned from those who have left, so that you can build that into your leadership development and strategy going forward? There will be a wealth of knowledge about people's experience.

I certainly felt it when I worked in Government Departments. When people find it difficult and experience those issues, the line of least resistance is just to say, "I've had enough," and to go somewhere else. Is that something that you have looked into, or are going to look into, to try to understand what has happened?

Bradley Fried: It is something that is a constant challenge for us. First, may I make an observation about the 23%, for the record? That came from a previous parliamentary hearing. There may have been a misunderstanding or misquote. I urge you to stick to the 9.6% and 7.3%, because I know that those are facts. That does not take away from the idea that the difference in retention is a source of material concern to us.

Q12 **Rushanara Ali:** Will you be speaking to those who have left over a number of years if you are in contact with them? Presumably you have their data. It is worth looking at doing a survey to understand what their reasons were. Some of the reasons would have been quite unrelated.

Bradley Fried: I do not believe we have an initiative to do that, but that is something I would like to take back with us, because I think it is a very good idea.

Dorothy Thompson: We always have exit interviews to try to understand why people are leaving, whoever the person is. After a discussion in Court, the Bank has also been looking at doing those again later. Often, when people are just leaving an institution, they are not quite as frank as they would be six months later.

Bradley Fried: I think what you are referring to is the later one. The answer is that it has been discussed. I do not believe it has been pencilled in, but it is a very important thought. Thank you.

Q13 **Rushanara Ali:** Thank you very much. I understand that you are due to report back in June on this issue.

Bradley Fried: Just to be clear, it is a standing item in Court. On the diversity and inclusion agenda, you should expect to see in each of our published sets of minutes either a thematic update or a specific update. It is a standing item.

Q14 **Rushanara Ali:** One of the recommendations is that, by June 2019, the Bank should report back to us setting out the additional steps it will take beyond the work it has outlined to the Committee to ensure it meets the diversity targets.

Bradley Fried: To be clear, that was the Public Accounts Committee, and we will be reporting back to them. In our May Court, we are confirming our response to the PAC, and we are due to report back to them by the end of June, so that is absolutely correct. Sorry, I was a bit confused about which Committee you were referring to.

Q15 **Rushanara Ali:** My questions are going to be related both to the NAO report and the Public Accounts Committee. In March, the Bank was criticised by the PAC, which said: "The Bank's leadership needs to ensure that its ways of working, systems and culture are brought up to date." How would you respond to that criticism?

Baroness Harding: The PAC was responding to the NAO report, and the Bank has welcomed the NAO's conclusions. Many of the issues that the NAO highlight were issues that the Bank had already identified. The NAO and the PAC have been helpful in focusing the institution and making us move faster, but those issues were not a surprise.

Q16 **Rushanara Ali:** So all three of you are completely on board with the need to achieve modernisation, particularly given these reports? It is part of the agenda to do that.

Baroness Harding: Absolutely. Some of the tone of the PAC report suggested that the leadership in the Bank had not heard this, and that could not be further from the truth. All of us—both executive and non-executive—are very clear that the need for modernisation is there. The work is ongoing and accelerating. Having the NAO review has proved a useful process.

Q17 **Rushanara Ali:** Perhaps, Ms Thompson, you could take us through some of the specific highlights that you are going to focus on with the chair and others to achieve that modernisation. Obviously, there are a number of areas that have been highlighted, but if you could just run through them quickly.

Dorothy Thompson: I can take the one that is dear to my heart. The focus of the report was on central services and how they support the Bank. What has happened over the years—I can understand why it has happened—is that, post-financial crisis, when the PRA was brought in, the FPC was set up and all that work was done, there was a neglect of investment in systems, processes and architecture for central services.

That means that the Bank has decidedly clunky HR, procurement and finance systems. They are all completely separate and they do not communicate very well—in some areas, not at all.

Starting in 2017, this has been quite a big issue for us. The Bank is now well advanced in putting together a structure, starting with a good target operating model, and underpinning it with a central ERP system that will improve the efficiency of HR and finance processes and procedures, and procurement.

Q18 **Rushanara Ali:** On staffing structure, HR and so on, you are already heading in that direction of travel. On property needs and ensuring compliance with your polices—procurement, for instance, where there was the concerning revelation around the failure of staff 200 times between 2016 and 2017 to fulfil the Bank's procurement policy requirements for any purchase over £25,000—will you complete commenting on those? Others may come in if necessary.

Dorothy Thompson: There is quite a story here. In, I think, May 2017, a proposal was brought to Court to say, "We need to completely update and relook at how we do procurement." That programme kicked off then. An audit was then done in early 2018 by our internal audit team, and they identified that for all purchases over £25,000, the purchaser ought to consult with procurement. In the sample they were looking at, there were a number of purchases where they had not consulted with procurement and as such were in breach of the policy. That is the report we gave to the NAO.

I started with this whole reform in procurement because, when you dig deeper, one of the things being looked at was the policy itself. Actually, when you look carefully at it, it was not a good policy. It did not say, "You must consult." So two things are happening. The procurement thing is quite well advanced—not the systems but all the rest. The policy has been completely changed, and it is now absolutely clear—it is black and white—with "you must" here and "you don't need to" there. And those people who had not complied with the policy have been required to go on mandatory training to understand the new policy and fully understand their compliance obligations.

Q19 **Rushanara Ali:** So it was the policy that was the failure, with the lack of clarity on what they should be doing, rather than the individuals who made those decisions.

Dorothy Thompson: I think that—

Bradley Fried: I think that is a perfect assessment. The answer is yes. There was absolutely no evidence—we dug hard, as you can imagine, through internal audit and our own endeavours—of a culture of non-compliance. There was an ambiguity around the policy. The policy was not fit for purpose.

Q20 **Rushanara Ali:** When was the policy introduced, drafted in that way? How regularly was it being reviewed? I am trying to understand on whose watch this was happening, because obviously some of it will have been inherited by new members of the Court and the senior team.

Bradley Fried: I do not think any of us can answer the question as to when the policy was implemented. We know that it was identified in May 2017, when Ms Place, our chief operating officer, arrived. She identified very quickly after arriving that the procurement policy was not fit for purpose. She said, "We need everything new. We need new governance"—

Q21 **Rushanara Ali:** Going forward, as well as in the past, how often do you review procurement policy? This is a really big deal, isn't it?

Bradley Fried: It is.

Rushanara Ali: It is about how money is spent.

Bradley Fried: That is absolutely correct. The answer is, we have been doing a review since 2017, and the idea was to implement it. It was called "Procurement 2020". We felt that a combination of the policy requirements, the system requirements and the governance would take three years to implement. We brought a lot forward—

Q22 **Rushanara Ali:** So my question is: how often was procurement policy being reviewed by Court or other senior managers, pre-dating the changes you have mentioned.

Bradley Fried: I do not know how often it was reviewed.

Q23 **Rushanara Ali:** Please can you write to us, because it would be helpful for us to understand what lessons can be drawn, not just for your organisation but for others.

Bradley Fried: Yes, sure.

Dorothy Thompson: I think you make a really good point, because it is standard for key policies like that that you review them either every year or every other year, but one of the things this has thrown up, which is a wider issue, is that we need to check if that was not a drafting style in a lot of our policies. So we have a new director of risk and compliance, and one of his responsibilities is to go through all the main policies. Within that, he is to make a proposal for what should be the recurring proposal.

Q24 **Rushanara Ali:** From what you have said, you conclude that because it was a policy failure, it would be inappropriate to take disciplinary action against those who were responsible for the 200 times on which procurement policy was not fulfilled.

My final question is really about the role of the board, of Court. Every organisation has a risk register. Why did this not get picked up in a risk register about how procurement is done and where the risks are? That is really what I am getting at about reviewing policies and practices within the organisation. Surely that is the responsibility of Court, of the board.

Bradley Fried: Indeed it is.

Rushanara Ali: Is that not a weakness, in the board, and should it not be addressed?

Bradley Fried: I would answer that in this way. In May 2017, when this issue was looked at in the first place, the weaknesses were identified. In June 2018, we asked the internal auditor to go in, and the June 2018 internal audit report formed the basis of the National Audit Office and PAC reports, and these were escalated at ARCo—so the first port of call was our Audit and Risk Committee. There was nothing new to us, and then it was a question of, "How quickly can we fix?", or "How quickly can we do?" The National Audit Office report that came out on this was based on our data and on our reporting to the NAO through our risk processes in the Audit and Risk Committee. There were no surprises there.

On the point about looking back and figuring out how often we refreshed those policies, that we shall do, but I assure you now that procurement and other such policies form part of something called "Our Code", which is annually reviewed and owned by Court, and we are accountable for it. "Our Code" includes every single one of these policies. For example, the expenses policy—which Mr Clark raised with me at my pre-appointment hearing—now forms part of "Our Code", and the new procurement policy is in it. People need to understand and attest to it.

Q25 **Rushanara Ali:** I have one more supplementary, on property. You have got the sports centre—

Bradley Fried: Not any longer.

Q26 **Rushanara Ali:** Not any longer? You have sold it?

Bradley Fried: Just to be clear, this was raised with me at my last hearing as well. I went back to the Bank, figured out that it was already on a discussion list of things that should be reprioritised as part of normal process, and in February this year, in Court, we made the decision that we do not need to own a sports centre—we have to differentiate between a sports centre, and a social and sports club for wellbeing and inclusion purposes. We made the decision that over the next 12 months, we will figure out how we can commercially get rid of that, whether through a lease or a sale. We will work that out in the months to come.

Q27 **Rushanara Ali:** In the meantime, perhaps you could let local people use it—unless you are already doing that. Lots of corporates share their facilities with local communities.

Bradley Fried: I think we already do that.

Chair: You do not live too far from the Bank—you could pop down—

Rushanara Ali: Not for me—local people, kids, teenagers.

Bradley Fried: I believe we already do, but if that is not the case we shall write to you and do that.

Chair: Do let us know if that is not the case. This leads us neatly on—you have anticipated the line of questioning that Charlie Elphicke will now kick off.

Q28 **Charlie Elphicke:** Turning to that sports centre in Roehampton, although Rushanara Ali may not realise it, you do allow members of the public to use it—for the sum of £1,464 a year—while Bank employees only have to pay £50. Will you continue to heavily subsidise Bank employees once you have sold it? What will you do?

Bradley Fried: The answer is no, we will not. The future of the Bank's social and sports approach will not be around Roehampton and subsidisation. We will provide subsidies to our focal sports and social facilities, but that will not be around Roehampton. Hopefully, within the next year Roehampton will be a commercial aspect of our past.

Q29 **Charlie Elphicke:** Thank you for that clarification. That was raised when we saw you last June, as was the issue of expenses. We discovered that two members of the FPC had incurred the staggering sum of £390,000 in travel expenses. Since that time, there appears to have been an updated travel and expenses policy, which you shared with this Committee in December. Will you explain the key changes that have been instigated following that review?

Bradley Fried: Absolutely. I would say the questioning around was incredibly helpful at the time of my pre-appointment hearing. I returned to the Bank and, very quickly after that, implemented an expenses-wide review. Ms Ali, I can actually answer the question on expense reviews. The policy said we shall review it every two years, but we took the opportunity of immediately launching the review of expense policy.

So there have been a number of changes, Mr Elphicke, some of them quite specific as to numbers and some more intangible, but let me just go back and say to you that it is based on benchmarking. We have benchmarked against 12 public institutions: HMT, HMRC, the Cabinet Office, the Foreign Office, the Home Office, the BBC and so on. We went through a very extensive benchmarking process. The first change was that this process led to an expense policy, which was implemented on 1 March, because we needed to get our systems in place for it. It was sent to this Committee and did not change from the moment it was sent, which was around mid-December, I believe.

Q30 **Charlie Elphicke:** Can I just clarify something? Is this policy set by the main board, or does it go through any of the sub-committees, like the ARCo or the remuneration committee?

Bradley Fried: It was developed by a sub-committee of non-executive directors; they led this, working with the executive team.

Q31 **Charlie Elphicke:** But which sub-committee's terms of reference does it fall within?

Bradley Fried: It was Court. Court set up the non-executives, and then it was adopted by the audit and risk committee and Court, so Court own the policy.

Q32 **Charlie Elphicke:** So the policy is owned by Court?

Bradley Fried: Yes, it is.

Q33 **Charlie Elphicke:** It is not within the terms of reference of any sub-committee?

Bradley Fried: It is. It is under the terms of reference of, actually, all the audit and risk committees and, now, the GovCo and the ExCo. It is owned across the institution—within the governance framework and the operating framework of the institution.

Q34 **Charlie Elphicke:** Before you turned up and improved governance, which I have to accept I think you have, did it fall within the remit of any sub-committee of the board, or was it just seen as part of a—something that was held to the board anyway?

Bradley Fried: It was. It was part of the same sub-committees. So I cannot, Mr Elphicke, whilst I would dearly like to—

Q35 **Charlie Elphicke:** Well, hang on: which sub-committee?

Bradley Fried: ARCo—the audit and risk committee.

Q36 **Charlie Elphicke:** The audit and risk committee.

Bradley Fried: Yes.

Q37 **Charlie Elphicke:** Dorothy, is that your committee?

Dorothy Thompson: That is correct.

Bradley Fried: It was mine.

Q38 **Charlie Elphicke:** Dorothy, you have been there since 2014.

Dorothy Thompson: Yes.

Q39 **Charlie Elphicke:** What have you been doing to make sure that the expense policy did not end up developing into this profligate monster that Mr Fried has had to take control of?

Bradley Fried: Mr Elphicke, I do not think that is fair. I didn't have to take control of that profligate monster, because indeed it was not that, and our research showed that it certainly was not that. I am happy to go into detail, but we have a universal, transparent, and shared across all the governance and operating committees of the institution, expense policy. It is built into "Our Code".

Q40 **Charlie Elphicke:** Were you happy with the previous policy—yes or no?

Bradley Fried: There were some improvements required. Generally, we could not find any culture of non-compliance, but there were some improvements required, and our benchmarks helped.

Q41 **Charlie Elphicke:** You seem to have made quite a lot of sweeping improvements, under pressure from this Committee.

Bradley Fried: The Committee certainly helped clear our minds on this topic; I can tell you that. It was very helpful.

Q42 **Charlie Elphicke:** What I want to know is this. Before you came, how did this profligate culture come into existence? Ms Thompson, how could you have a situation where two FPC members were able to incur £390,000 of travel expenses? What were you and your committee doing in terms of oversight?

Dorothy Thompson: I think it—

Bradley Fried: Just to be clear, I was chairing the—

Charlie Elphicke: Well, I would like to direct—

Bradley Fried: I was chairing the committee before Ms Thompson.

Q43 **Charlie Elphicke:** I understand that, but I would like to direct that question at her, because according to the papers I have in front of me, she is the chair of the AR committee. Correct me if that is wrong. Is that incorrect?

Dorothy Thompson: It is correct. I think it is wrong to describe the Bank as profligate. I think there were some errors in the management of expenses and the approval of expenses, but if you look, which the review did, over the whole, they were a very small number of circumstances or of occurrences relative to the total. I would actually say that the culture of the Bank is one of really believing that their responsibility is to do the best they can for the UK, in the most value-added and cost-effective way possible.

Q44 **Charlie Elphicke:** Well, there was a 2016 summer party that cost £100,000, and now—since we had our discussion—it seems that it was a similar figure last year, so it still seems that you just carry on regardless at the Bank.

Dorothy Thompson: This is an annual event. The cost is £40 per head. There is no alcohol funded. And it is the one large offsite for the institution. But it must be said, as we are stressing, more and more, cost competitiveness and cost control, it is one of the things that is under review.

Q45 **Charlie Elphicke:** The reason I raise it is this; what I am trying to drill down to is this. Before you came, Mr Fried, what was the culture in terms of the non-execs challenging the executives? Let's be honest: you had the PRA and the FPC go round the place telling non-execs on financial institutions how they should challenge their executives. Then we look at the Court and have to say, "Are they practising as they preach?"

Dorothy Thompson: You make me wish I could invite you to a Court meeting. You would have no problem in understanding that the non-execs are totally capable of challenging the execs.

Baroness Harding: I would just add that voluntarily the Court has adopted the same approach as we expect the firms that we regulate to adopt, in terms of the senior managers regime. The three of us and the other prescribed members of Court, as part of the senior managers regime, have defined personal responsibilities. We attest to them each year. We are role-modelling the behaviour we would expect to the companies that we regulate.

Q46 **Charlie Elphicke:** I want to say that there does seem to be an element of muddle and confusion here. You seem to have changed the expenses policy but then said the previous policy was just fine.

Bradley Fried: No, it needed improvement, but there were no radical changes. If I can tell you what we have done. The first thing is that we have confirmed against benchmarks that we were in the right place. The second thing is that we increased controls over certain expenses. The third thing is that we changed some expenses and we took some down.

For example, we brought our meal allowances down for lunches and dinners. We figured out that one of the things we were doing wrong was that we were not getting the best prices on air tickets, which is the biggest expense item we have had disclosures on. We were not getting those right prices because we were not getting discounts on prices that were originating in the United States.

Q47 **Charlie Elphicke:** So, you weren't paying £11,000 for a trip from Chicago to London.

Bradley Fried: Actually, those were two trips, Mr Elphicke.

Q48 **Charlie Elphicke:** Okay. How much do you pay now? How much less is it?

Bradley Fried: It depends on the date, the time, the extent, the season of the travel. I can tell you that from now we are getting best global prices. We were not before and we figured that out in the review. We were getting a UK travel agency making bookings for flights originating in the United States, for US residents, that simply did not optimise the benefit.

Q49 **Charlie Elphicke:** So, what are the projected savings in terms of the new expenses policy to be made in terms of percentage and absolute numbers?

Bradley Fried: We cannot figure that out because we cannot figure out what the number of flights will be. It depends on who the policymaker will be at the time.

Q50 **Charlie Elphicke:** You must have an expenses budget. You must be able to project. You are a bank; you are meant to have systems for this sort of thing.

Bradley Fried: Yes, we do have systems for it. We can figure out our expenses across all these policy units but I would tell you that we are holding all of our costs flat. Within the context of flat costings, and certainly for monetary policy and financial policy, we have committed to five years of flat costings. In the context of those flat costings, these savings will be very important for us.

Q51 **Charlie Elphicke:** But you cannot tell us what the savings are.

Bradley Fried: It depends on the issue. On meal allowances they will be 20%. On flights, we anticipate about between 15% and 20%, based on the data we have seen.

Q52 **Chair:** Would you consider appointing a member of the Court to be responsible for value for money, in the same way that the SMR does? Is that something that you might consider?

Bradley Fried: It is. We haven't, Mr Streeting, but it is certainly a consideration. Right now, value for money is owned across a number of areas.

Q53 **Charlie Elphicke:** It seems to me that there is further work to be done in terms of transparency on these issues and value for money. Let me turn to the issue of bullying and related matters. The Bank published data that we found in November 2018 showing 21 cases of bullying and like cases. How many of such cases were upheld?

Bradley Fried: I will give you the specific numbers. From 2014-18 there were 21 cases of bullying. In that situation, as you can imagine, every single one was investigated and 10 were upheld. Those all led to disciplinary proceedings, including dismissals.

Q54 **Charlie Elphicke:** In terms of the investigation, was it done in accordance with the rule of law, natural justice, proper procedures and a fair hearing for all concerned? Because not every allegation is true.

Bradley Fried: That is correct and that would be borne out. You ask a very specific question. The answer is: to the best of my knowledge, yes. The reason "yes" is because, when it comes to bullying, harassment and discrimination, I want to be absolutely clear on those topics. We have no truck with that. We will not accept that.

I want to be absolutely clear, Mr Elphicke, because we cannot leave an impression other than what I am going to say. We will not accept a smidgen of bullying, harassment, discrimination—nothing, zero tolerance, we are not having it. On the other hand, we have to ensure that everybody, including the accused, are protected under the law and that the process is due process, fair process and complete process. Each year, we review our policies in ARCo and in Court to deal with these issues—to deal with bullying.

Q55 **Charlie Elphicke:** There is an issue though. The Press Association requested a gendered breakdown of complainants, and obviously we have heard about diversity issues as well. Would you be willing to provide a gendered and diversity-based breakdown of complaints made and upheld?

Bradley Fried: I believe we cannot, and the reason we cannot is because of the low numbers involved. I understand that Sir Jon Cunliffe wrote to the Committee about that. Because of the low numbers involved, we will be violating data protection issues if we do make those disclosures. There is no other reason other than that, but I can assure you that, no matter who it is about, be it a BAME, a female, a white male, we will not have it—none of it.

Q56 **Colin Clark:** I am going to speak to you about the lessons to be learned from no-deal planning. Both the Bank and the PRA made large-scale changes to their rulebooks in a very short space of time to ensure a functioning legal and regulatory framework when the UK leaves the EU. How did you handle that process from an operational perspective and what lessons have you learned?

Bradley Fried: Let me observe what Court has done, because I do not want to for one moment put my spoon into the Caesar salad of any of the policy committees—it would just be inappropriate and it is beyond remit. Let me say what Court has done, however, because in the same way that diversity and inclusion is now a standing item of Court, from the moment of the referendum result, Brexit became a standing item of Court. We have had a Brexit discussion at every single Court meeting subsequent to the referendum.

The Bank has looked at it in multiple ways. We have looked at it, as you can imagine, just to give you a complete picture, from the perspective of the communications from the institution. We have looked at it from the perspective of the policy committees and the joined-up-ness of the policy committees to make sure that we get the best thinking around these tough issues and how the policy committees work together. We have looked at it from the PRA's perspective and making sure that the rulebook is correct, that we nationalise the acquis appropriately, that the temporary permissions regime came into being and that the statutory instruments were enacted timeously. We have looked at it from the perspective of financial stability.

We have had a checklist that you will have noted in this Committee—I believe it has been discussed here multiple times—from the financial policy committee, which dealt with all the matters that we can control, that we cannot control, that impact the UK and that we are relying on the EU to do to ensure financial stability. There has been complete transparency around that and you would have read about that in the financial stability review.

What we have done at Court is ensure that our resources are appropriate in relation to Brexit resourcing. That has been a really tough job, because it has required constant re-prioritisation across the institution, while getting to a very good end result.

Q57 **Colin Clark:** Did you hire extra staff for that process, and how many? Will they stay on after?

Bradley Fried: There were not too many extra staff hired. A lot were reallocated, because there was reprioritisation work done. There were some extra staff, but I do not know the exact number of extra staff. I will tell you that some hundreds—we know the specific numbers; by directorate, we know exactly who is working on Brexit issues.

We have had to prepare very hard. As you can imagine, we are not an institution that hopes for the best. We are an institution that you would expect, that the nation would expect, and that your constituents would certainly expect to prepare for the very worst, and we have done just that.

We have made sure that the system is such that two things have happened. First, under any scenario, we believe that the financial system is ready to help the real economy—to lend up and down this country under any scenario. That has been a very important thing for us to do. The second is that the public can be served by their financial services, and by EU firms that are here under a temporary permissions regime, under any scenario. The third thing is to ensure that, from a stability perspective, we stress-tested the system and made sure that all the issues raised by the Financial Policy committee—clear derivatives, unclear derivatives, international data transfers, and so on—have been dealt with.

Q58 **Colin Clark:** Can I just bring you back to lessons that have been learned? When we last heard from the Court of the Bank of the England on 10 December 2018—I am just reading from the minutes—there had been some concern about politicisation of the institution. From an operational and HR perspective, how do you avoid that politicisation, and have any lessons been learned? A big issue was made of the timing of statements that were released.

Bradley Fried: Yes, let me talk about that. You are referring to the December 2018 minutes. That was a very important Court meeting for us, because it followed the Bank's submissions of answers to this Committee's questions. As you will recall, there was a lot of press around that.

Let me, if I can, answer your question about politicisation. The Bank's work, as I mentioned, has been a standing item at Court ever since the Brexit referendum. Certainly, the communication made to you described the scenarios that the Governor and the policy committees had developed as part of the communication to you, and we wanted to review that because it was so high profile. We believe that, in describing the scenarios, the policy committees, the Bank and all involved had acted entirely within remit.

This is the important point: the Bank is mandated to deliver this country financial and monetary stability. It has been clear since 2016 that Brexit was going to have an impact on both, and since then the Bank has worked to ensure that the financial sector will be resilient to whatever the Brexit outcome will be. We have therefore reviewed all the communications along the way, and our view is that the Bank has acted within remit. We have a duty to work in response to those factors and we have to build those factors into our response to the public.

Q59 **Colin Clark:** The Court reserves certain key decisions, including codes of conduct. Lord King, who was previously a Governor of the Bank of England, suggested in December 2018 that the now Governor had been drawn into a project to scare the country. Are the codes of conduct supposed to avoid politicisation, and were any codes broken?

Bradley Fried: No. Let me be absolutely clear about that: no codes at all were broken. Lord King has a view and it would be inappropriate to address that view. I must make the point—you raised the issue, Mr Clark, so I have to respond to it—that the Bank was not pushing "Project Fear" then. It has never pushed "Project Fear" and is not doing so now. The politics of any individual policy maker is utterly and completely irrelevant. The decisions taken by the policy committees have never been whimsical or based on politics. They are based on rigorous analysis and careful consideration, and are not taken individually but by committees of serious people who have to ensure that the financial system will be resilient to whatever form of Brexit transpires.

Q60 **Colin Clark:** I suppose the point that I am trying to get at, Mr Fried, is that in the same way that the civil service is supposed to be above politics, is that in the Court's remit? Are there codes of practice in place for timing the release of statements, for example?

Bradley Fried: Yes, absolutely.

Q61 **Colin Clark:** If you think back, the accusation was that the Bank was lined up with the Treasury. That is what I am trying to get at, as opposed to making the accusation.

Bradley Fried: I am sorry, I misunderstood you—forgive me. Let me answer the question explicitly: yes, there are very detailed codes of conduct. They cover the policy committees themselves—there is a code of conduct for every single policy committee—and there is a Court code of conduct as well. There is no getting away from what is expected of policy members.

Q62 **Colin Clark:** So there are management systems in place that should absolutely avoid that?

Bradley Fried: Absolutely. The Court policy is owned by Court and the policy committees' codes of conduct are owned at that level. If ever there is an issue, we would discuss it at Court and would own the result there. So the answer is "Yes, there is."

Q63 **Colin Clark:** Did the suggestion of politicisation in an organisation such as the Bank of England have any effect on staff retention and morale? I am sure that your team will feel that they are above it. Did it cause an issue?

Bradley Fried: No. To be clear, Mr Clark, nobody feels that they are above anything. Cut us and we bleed—we are ordinary and straightforward people, and we feel it. When there is a concerted bashing of an institution that acts in the public good, it is hurtful and difficult. I do not think it would be fair to leave you with the thought that people feel above that or in any way disconnected from it.

Our mission is very clear: we have to serve your constituents. We have to make sure that your constituents have monetary and financial stability in their lives. We have to make sure that there is a post-EU framework for financial stability that guides this country. We feel that very deeply and it is a major part of what has happened in this institution over the last three years for many people in it.

Colin Clark: Isn’t it just?

Chair: Last but not least, Steve Baker.

Q64 **Mr Baker:** I want to come on to short and long-term strategic goals, but I hope you do not mind if I pick up on a couple of issues as an aside. I think there is probably at least a Master’s essay in the statement “The politics of policy makers is irrelevant,” but that is probably for another time.

Bradley Fried: For another hearing, Mr Baker.

Q65 **Mr Baker:** You have mentioned benchmarking a couple of times. On a very serious point, I was just thinking about bullying, which has come up, and turnover of staff. You have been absolutely clear that not one instance is tolerable and of course, we all agree with you. Have you done any benchmarking of the rates of turnover and bullying in the Bank compared with other major financial institutions?

Bradley Fried: Can I invite Dido Harding to comment, Mr Baker?

Baroness Harding: We have not got the direct percentage of staff who have been victims of bullying, or a national benchmark—we were actually discussing that about three hours ago. What we have got as a very robust benchmark is our staff survey compared with national averages. In 2018, 73% of staff responded favourably to the suggestion “I feel free to voice my views at work.” That 73% compared with a national average of 68%. In addition, 87% of staff agreed with the proposition “I am treated with respect as an individual.” That compares with a UK average of 81%. They are not perfect, and that is not good enough, but they are significantly better than the UK average.

Q66 **Mr Baker:** Thank you—that makes it very clear. I am looking at some proposed strategic goals for ’19-’20, but could I ask you to run through what your strategic goals are for the next year?

Bradley Fried: Absolutely. I think that it would be useful, because it is an easy exercise, Mr Baker, if I told you the change from ’18-’19, which is very simple. If we look at our ’19-’20 goals, there are seven strategic initiatives. First, they are in terms of Brexit, which we have dealt with a lot already, and maintaining financial stability during Brexit and beyond.

Secondly, FinTech is an important one. You may have noted a couple of speeches on FinTech from the Governor and Sir Dave Ramsden over the last few days. It is a crucial issue that I think will greatly impact your constituents in the years to come—both individuals and small and medium-sized enterprises. The Bank needs to lead the way on that. That, by the way, is not the FinTech accelerator, which is being built into the normal course of our business. It is FinTech policy to the extent that it touches on monetary policy, financial policy, the PRA and the way that we think about the future of finance.

The third goal is fair and effective markets, which was raised some years ago at Mansion House as you will recall. That is an ongoing issue for us and for the industry, and clearly, as you would imagine, we need to be vigilant on that, and we will be.

The fourth goal is resolvability, ending "too big to fail" and ensuring that the firms that we supervise fail in an orderly way if they need to fail. There is still some work to do on resolvability, which remains the fourth strategic objective until we resolve it.

The fifth goal is on RTGS. Mr Streeting, you asked me a number of questions on RTGS the last time we were in Committee. RTGS 2 is on the way. We have very significant objectives and expectations for RTGS 2. The real-time growth settlement system settles £600 billion a day, with 99.95% or 99.97% reliability figure. You can imagine the importance of that to us—it is huge.

The sixth is building greater operational resilience in the financial system as a whole. That will pick up cyber-crime, for example, and cyber-issues. We are now moving from cyber-penetration testing across the PRA and the Bank generally to response and recovery. The Committee should know that, and no doubt you will raise it in future hearings. Response and recovery will become a big feature of what we do.

The six initiatives I have just identified were the same last year, because they are ongoing issues. The seventh is new—I will tell you what came off the list—being the Bank's own resilience. To Ms Ali's earlier points, coming out of the NAO and the PAC, an objective has become the Bank's own resilience and making sure that our systems are safe, simple, strong, fit for purpose, fit for 21st century central banking at the highest level. Given that there are only seven objectives you can imagine what that means optically in the organisation.

The one that went off the list this year, compared to last, was understanding the causes and implications of the lower for longer interest rate environment. The reason it came off the list is that by March of this year a lot of our fieldwork in the area had been completed.

Q67 **Mr Baker:** Do you think we fully understand the implications of lower for longer?

Bradley Fried: I do not know the answer to that question. I would be shooting from the hip. I would love to give you my speculative answers, but it would be intolerable for my policy-making colleagues back at the institution, so I am not going to do that.

Q68 **Mr Baker:** In the same spirit, I will not give a bibliography of my concerns. Ms Thompson, what do you think are the key risks to the delivery of the goals set out?

Dorothy Thompson: Thinking about what happens at the audit and risk committees, we have the various divisions come and talk to us about the different risks for their divisions. To be honest, they are quite disparate, but there is one resounding one that does come through: that ultimately a lot of these deliverables require excellent work by Bank staff in a very effective way. That has been under quite a lot of stress as we have had to reprioritise for Brexit, and there is the work on Brexit itself. So I would say one of the risks which we are all very conscious of is making sure we retain a good environment for people to deliver that effectively, with people stress handled effectively.

Q69 **Mr Baker:** In particular, you mentioned Bank resilience coming on to the agenda as a new role. Could you tell me a bit more about where you see risk lying in banking?

Dorothy Thompson: The second risk I was going to mention is: we have got three very large technology change projects going on. One is moving all our data and IT architecture to a data centre. The second is implementing the central services ERP system. And the third—the most challenging—is the new real-time growth settlement system.

The change in all three of those projects has implications for an awful lot of the other systems in the Bank. So I think like for any big change project one has to recognise that the risks are high when you start out. The key is to mitigate those risks by really good execution and project management. That is what the focus has been.

Q70 **Mr Baker:** Would you tell us about how you assure that capacity for execution—

Dorothy Thompson: It varies from project to project. To take RTGS, we concluded at the Court that given its importance and the focus we need to have on it, it was probably appropriate to create a sub-committee of the Court. That has been created. That has members of the Court on it—or non-executive directors from the Court—but it also has experts in settlement systems banking. That sub-committee provides more focus.

Then what happens is the sub-committee reviews with the project team what the assurance plan is going to be. There is a detailed plan—I am sorry; I cannot remember it, but I do sit on the sub-committee—of assurance at each different stage. Quite a lot of it is external, because it is good to have that counsel. We also have—we have just done a review, actually, and know this—a really strong internal audit team in the Bank, so they will also provide some of that assurance. Is there something you want to add to that?

Bradley Fried: No, other than the fact that, ultimately, all of these are owned at Court. They do not sit tangentially to Court. There is a point of integration. When we start seeing that there is too much stress across the system, we will see it through our audit and risk committees and through Court.

Q71 **Mr Baker:** I want to get on to the longer term goals, but since the risk from technology and in particular from technology purchased overseas has been in the news, is that something that the Bank is taking into account when it considers its operational resilience? I am thinking of

Huawei.

Dorothy Thompson: You are thinking of foreign suppliers.

Mr Baker: Yes; you are moving data centres. When you consider your operational resilience, do you consider what kind of technology you are using?

Dorothy Thompson: In any procurement of any IT system or architecture, we will look very careful at the cyber risks and the security risks. We will look very carefully and do extensive due diligence on the likely suppliers.

Q72 **Mr Baker:** Thank you very much. On Vision 2020, I would like to get to the cusp of the matter, because it has been quite a long session. Mr Fried, you said in particular that you wanted to use plain language to talk to people. Can you tell us a little about how you have been reaching out to consumers, in particular, and engaging with households to communicate the Bank's messages in plain language?

Bradley Fried: Yes. Interestingly, there are two aspects to communication under Vision 2020: internal and external. Our starting point was actually changing our internal communication—shorter notes; language that was plainer and more straightforward; and the author in the room so that you could go straight to source. The feedback that we have had from our policy committees has been overwhelmingly positive, that folk are not judging that the only point of success would be a significantly thick briefing paper, but that brevity is the order of the day. That has been huge.

If we talk about communication across the country, sometimes there is a perception that the Bank of England lives in its Threadneedle Street bubble. It is actually a nonsense in relation to how we think of ourselves and how we communicate. We are the Bank of the United Kingdom. We communicate up and down the country.

We have 12 agencies across the country covering every single region. There are 60 staff who staff those agencies. If we look back at the last year, they made 8,200 visits—roughly 1,000 before every MPC round—and those visits then feed into the MPC rounds. There has been just about 1,000 on average per round. They have made 700 presentations and 23,000 people have been presented to. They have had 60 occasions where policy makers have gone to visit companies up and down the country. We have had 15 town hall meetings. Interestingly, we now connect with charities in many of those town hall meetings, because there are some hard-to-get-to people and we need to do whatever we can to get to those hard-to-get-to people, so those town hall meetings are a critical part of what we do.

The next thing we are trialling are citizens—

Q73 **Mr Baker:** Forgive me, but before you move on, when you say hard-to-get-to people, I am sure everybody in the room knows that there are plenty of hard-to-get-to people, but I imagine that the Bank's definition of people who you would like to reach and who are hard to reach is possibly slightly different from those we hold in mind. Who do you want to reach?

Bradley Fried: We need to understand vulnerable communities. Take the use of cash, which should be of primary concern to many people across your constituencies regarding cash machines and so on. We really need to understand this, but we need to understand it from source. We need to understand what the implications are for households and their borrowing profiles. The starting point, often, is vulnerable people and vulnerable constituencies. There are many points of vulnerability, so getting out is very important for us.

Back on the question of communication, the second thing is that we are trialling citizens' panels. We have trialled three, and would expect to operate 24 a year. One can sign up for those citizens' panels. Some will be in person; some will be online—tweeting questions and getting involved with questions. These are not for the sake of being nice, ticking a box, or saying, "Oh my gosh, we've done citizens' panels!" That is irrelevant. It is for the purpose of building trust, listening very hard to the concerns of your constituents, and being able to feed that listening back into our policy decisions to make better policy decisions. Candidly, it is also about being able to answer questions from people, and take those questions. Sometimes they are not easy questions to stand up and take at many of the panels. I have seen some of those.

The next issue is to go from that side to schools. Schools are very important to us. Our statistics show that we have reached 30% of secondary schools in this country, and 25% of state secondary schools. Two thirds of the schools are state secondary schools. We have reached a very large number of schools; we call them "ambassadorial visits". They are visits to schools to speak to people, and they download our materials. It is called EconoME. Our objective is to reach all secondary schools educating 11-to-16-year-olds. After that, we move on to primary school kids.

Up and down the country, we are listening very carefully and communicating as much as we can. It is a huge part of Vision 2020, and we are doing this in plain language. The other issue is the layered ways in which we report our inflation report and our financial stability report. If you want to see the impact of an interest rate in a cartoon format, you can. If you want to see it in a visual format with more slides, you can. If you have a PhD in economics, and you really want to read the report in detail, you can. Whichever level of depth you want to get into, you can do that.

Mr Baker: Thank you very much. It is an impressive effort.

Q74 **Charlie Elphicke:** You talked about hard-to-reach people, and then you raised cash and cash machines. Doubtless you will know that Which? published a report today saying that 1,700 cash machines started charging in the first three months of this year. I very gently say that it is all very well expressing concern, but what is the Bank going to do about it?

Bradley Fried: I did read that. I wish I could say that I read it on purpose, but I read it, happily, by mistake. On the train coming over here I saw the BBC report. I was quite relieved to have read it, because it is a major concern for us. You will doubtless be aware of the access to cash review, which was commissioned by the ATM network LINK in July 2018, to look at the future of cash across the UK. As far as the Bank of England is concerned, we have a unique role in cash, in that we are the sole issuer of banknotes in England and Wales. We are also in charge of wholesale cash distribution across the nation, and wholesale cash distribution is an absolutely key part of the cycle, because it enables the public to get the notes that they want to get.

I start from the top and get down to the ATMs because we are not responsible for those ATMs; we are responsible for regulating LINK, but that is from a resilience and stability perspective, through our FMI infrastructure. You are getting into the realms, Mr Elphicke, of the FCA, the Payment Systems Regulator, overall Treasury policy and so on, but I—

Q75 **Charlie Elphicke:** All of which are part of the Bank, and effectively part of the Bank family. I would have thought that the family might take some action.

Bradley Fried: That is a very important point, and yes we are. You may have noticed that there was a press release, I think it was in the beginning of March, following the access to cash review. That press release said that we would be convening the entire cash industry. We are confident that a good starting point would be to build a new cash distribution system for a world in which there is going to be significantly less cash than in the current cash distribution system, which was designed for a world where there was predominantly cash.

Already we have seen debit cards take over from cash. We have also seen 4% of this country—2.2 million adults—relying virtually solely on cash. Half of those people earn less than £10,000 per annum. To the vulnerability point, Mr Baker and Mr Elphicke, these are big deals. While the FCA, the Payment Systems Regulator and the Treasury are not part of the Bank, they are part of the broader financial services family, and I will show you, Mr Elphicke, that we understand our responsibilities in that family. We will be convening this group, and we will no doubt report back to you once we have done that.

Q76 **Charlie Elphicke:** My concern on this is, if we look at the experience in some Scandinavian countries, once cash falls below a certain threshold, it becomes a real problem. It is a particular problem to some of the most vulnerable, least well-off people in this country, particularly in rural areas.

Is it not important to guard against that, and for the regulators and the bankers together to act quite decisively to require the banks to be more supportive of the cash machine network than they have? They have taken a somewhat penny-pinching approach—no pun intended—on this, to foist the costs on to the cash issuers, when in fact what they ought to be doing is taking a wider responsibility to ensure the supply of cash in this country.

Bradley Fried: I will answer that in two ways. I would first confirm again that we understand the problem and we understand our responsibility. I think it would be very dangerous for me to try and commit a whole number of regulators, including our parent company, to a course of action that is completely beyond my mandate. However, I would say to you that we really do understand this responsibility, and we understand the vulnerability and the issues involved.

I thought the article today—that Which? article, as reported by the BBC—summarised it really in a way where you could really understand the impact for your constituents and for the public. We see the concern, and it is an issue, and we will be very responsible in addressing it.

Q77 **Chair:** Thank you, not least because consumer access to financial services is something we have been looking at, and an area of interest to the Committee. Can I conclude with just a specific, going back to RTGS? You mentioned the renewal sub-committee. We noted that it is not listed on your website, nor are the minutes of the sub-committee published, nor indeed do we have an idea of the cost.

Bearing in mind that Sir Dave Ramsden stated that given the scale of the project and the resource implications, there needed to be the strongest possible accountability, it does not feel like—from our perspective looking in—the strongest possible accountability. There is an unhelpful degree of opacity for those of us looking into your deliberations in the way that we normally would.

Bradley Fried: I would like to reflect on that, but I would make a few observations. The RTGS delivery committee was formed last summer, when we started accelerating the scoping and getting ready for a technology delivery partner. We are now moving into a technology delivery partner mode, and there is a number out in public of the cost of the general ledger, the settlement system and the systems integration. That is £150 million; that is in the public domain. That is for that part of the project, not the whole project, and our thinking was that we needed a specific committee of Court to do that.

I think publishing the minutes, given the extreme commercial sensitivity—and not simply the commercial sensitivity, but the sensitivity around participants, around cyber issues, and so on—would be quite problematic. However, figuring out how we can better inform—perhaps we can do that through the minutes of Court, which are published, as you know, after every meeting of Court. With your permission, Chair, perhaps we can consider that. Other than if I write to you, you should take that as done.

Q78 **Chair:** Thank you very much. I think we just have at the back of our mind the unhelpful precedent of the outage in October 2014, and the importance from a public accountability point of view. We understand the importance of this system to critical infrastructure, and we want to make sure and reassure ourselves—and through us, the public—that you have got the hand on the tiller in the right way, but I take what you say about the commercial sensitivity aspects of it.

Bradley Fried: And I would tell you that that 2014 outage does not feel like 2014 in our minds, Mr Streeting. It always feels like yesterday, and I would observe that this Committee was very helpful at the time in steering us through that.

Chair: Well, thank you very much for your time this afternoon and for the very open and engaging way in which you have addressed the many probing questions. We look forward to seeing you again in the not too distant future.

Bradley Fried: We thank all of you for this oversight, very much indeed.

Chair: Thank you very much.