



National Audit Office

Report

by the Comptroller
and Auditor General

Bank of England

Managing the Bank of England's Central Services

Key facts

£647m

the Bank of England's total expenditure in 2017-18

£188m

the cost of the Bank's Central Services in 2017-18

£11.5m

cost reductions that Central Services are committed to deliver in 2018-19

- £476 million** the Bank's cap on annual expenditure excluding pensions and production of banknotes, set in October 2017
- 4,281** self-imposed limit on the number of staff the Bank can employ
- 13%** growth in Bank of England staff numbers between 2014-15 and 2017-18
- 15%** additional cost of the Bank's HR function per full-time equivalent compared with central government bodies
- 800** estimated number of unoccupied desks in the Bank's London headquarters on any given day
- 5** number of initiatives to transform the Bank's Central Services and reduce costs

Summary

Introduction

1 The Bank of England (the Bank) is the UK's central bank. Its core mission is to “promote the good of the people of the United Kingdom by maintaining monetary and financial stability”. In practice it has a wide range of differing roles including: setting monetary policy; setting policy for financial stability; supporting financial markets and the settlement of transactions; and prudential regulation (since 2013). The Bank is primarily funded by income from financial instruments and fees charged to bodies using its services. It receives no direct taxpayer funding or grants from government.

2 A board of directors known as the Court is responsible for overseeing the Bank. The Court is accountable to both Parliament and the public. Court sets the Bank's strategy and delegates the day-to-day running of the Bank to the Governor. In 2014 it introduced the One Bank strategy to make better use of the Bank's expertise across its functions to maximise its impact as a single organisation and deliver a shared sense of mission, particularly as the Bank's mission had expanded following the financial crisis.

3 In 2017 we examined the Bank's progress with delivering the One Bank strategy. We reported that the Bank had made progress on several fronts: tackling diversity, integrating prudential regulation, and improving its research standing. We identified longer-term challenges to embed culture change and to deliver significant technology projects.

4 The Bank has updated its strategy to include what it wants to achieve by 2020. 'Vision 2020' identifies two key areas for the Bank to improve its effectiveness: the way it works and how it communicates. Vision 2020 does not focus on cost or efficiency. Separately the Bank has committed publicly to containing its costs and has set internal targets. In 2017-18 it introduced a headcount cap of 4,281 full-time equivalent staff. In 2018-19 it committed to capping controllable costs at £476 million a year (total operational spending excluding staff pension costs and the costs of producing banknotes).

5 The Bank's Central Services division (Central Services) has an important role in facilitating the changes needed to enable the Bank to work more flexibly and control costs. Central Services is responsible for Human Resources (HR), technology, property, procurement, security and financial management.

The scope of this report

6 This report examines whether the Bank has a sufficiently ambitious strategy for developing efficient and cost-effective Central Services appropriate to support the Bank to deliver change and control costs. We set out the role of Central Services (Part One) and assess how the Bank is improving Central Services (Part Two). We do not assess the merits of the Bank's strategic objectives.

Key findings

Improving Central Services

7 The Bank has recognised that it needs to transform the provision of its Central Services. The Bank's new Chief Operating Officer started developing a strategy to transform its Central Services in May 2017. The Bank examined the case for changing its operations in October 2017. The review identified a high level of manual processing and use of bespoke systems, contributing to cost. It identified a range of issues including: ageing systems; weaknesses in management information; inflexible reporting; low confidence in controls; and limited ability to monitor compliance. Some 44% of staff were frustrated by poor processes and procedures across the Bank compared with 30% who regarded them positively. The Bank has initiated five projects to improve Central Services. The guiding principle is that services should be simpler, more effective and more secure. In November 2018 the Bank adopted a new strategic priority to "enhance the strength, security and efficiency of the Bank's internal operations" (paragraphs 2.2, 2.3 and 2.7).

8 The Bank is developing a new vision to guide its development of Central Services. Since the launch of the One Bank strategy in 2014 the Bank successfully delivered major initiatives to address fragmented practices within the Bank, including aligning terms and conditions across the Bank, introducing a new performance management system, and bringing together its technology operations within one Central Services team. The Bank is currently developing a new operating model to guide the development of all its Central Services activities and the performance they should be aiming for as a whole. Central Services leaders have been working to define future services. This includes the shape of its HR function, the technology the Bank will need to support its vision, and the size and appropriateness of the property portfolio. It has several projects currently under way to improve Central Services and enhance the security of the Bank (paragraphs 2.4 to 2.6):

- **One Bank Services Transformation (OBST)** is a three- to five-year programme to redesign Central Services. It aims to reduce the number and complexity of services provided to the business, redesign the organisational structure around the remaining services, and use technology to implement better systems. The Bank expects to finalise the full business case for change by April 2019. Provisional high-level estimates indicate it will cost around £10 million and achieve annual savings from technology improvements of around £3.3 million a year from 2021-22. It expects to achieve further savings from changes to operations.

- **Procurement 2020** is a three-year programme to overhaul the Bank's procurement between May 2017 and March 2020. The Bank has redesigned the central procurement function and strengthened its procurement expertise. It established two new commercial boards to oversee all procurement of technology and facilities management. It is improving management information and it plans to launch a new procurement policy and improve support and guidance. It expects to achieve annual savings of £12.5 million a year from 2021-22.
- **The Data Centre Migration programme** is moving the Bank's data centre into third-party facilities with the ability to use cloud-based services and improve resilience. It is expected to cost £48.3 million and will reduce operating costs by £2.3 million a year from 2021-22.
- **The Cyber 2020 programme** is a three-year programme ending in 2020 to continue developing and strengthening the Bank's cyber security to protect critical national infrastructure maintained and operated by the Bank from increasing external threats. It will cost £9 million.
- **The Security Enhancements programme** is improving the Bank's physical security to address the threat from terrorism at a cost of around £2.1 million to implement and annual costs of £1.6 million.

9 The Bank's Central Services are expensive in some areas when compared with UK public bodies. The cost of Central Services increased in real terms from £174 million in 2014-15 to £188 million in 2017-18, including the £42 million cost of supporting critical national infrastructure for UK payment systems. The Bank's own benchmarking of its Central Services, in terms of staff numbers, suggests that it compares favourably with other central banks. The Bank's Central Services staff make up 26% of the Bank's workforce compared with a median of 29% in other central banks. Our benchmarking of comparable activities in other UK public sector bodies indicated that some areas of the Bank's spending appeared high. Compared with the median level for central government bodies: the cost of human resources per employee is around 15% more expensive; the cost of recruitment is 70% more expensive; and the cost of providing technology support to staff, excluding expenditure on supporting national payments systems, was 34% more than central government. The Bank's London property costs are 22% less than central government comparators, although the Bank benefits from owning the freehold for its Threadneedle Street headquarters (paragraphs 2.11 to 2.15 and Figures 8 and 9).

10 A number of factors, including complex processes and traditional working practices, potentially reduce effectiveness and contribute to costs. We examined several specific activities within Central Services to assess how they operate in practice and the extent to which there was a clear link with the Bank's overall strategy. Our case examples identified issues that need to be addressed to improve effectiveness and reduce costs (paragraphs 2.16 and 2.17):

- **The Bank has more than 700 job titles and this introduces a significant degree of complexity and hence administrative cost.** The Bank operates a large number of job titles. Processes have evolved to support that complexity, with associated costs to oversee and manage these. For example, the Bank's HR function operates two processes, in addition to the annual appraisal and competitive promotion processes, whereby an employee's grade and pay may be increased. The Bank uses a job re-evaluation process, and a separate in-role non-competitive promotion process. Since 2015 around 200 roles, which may each relate to one or more people, have been re-evaluated and there have also been around 200 in-role promotions. The Bank plans, as part of OBST, to re-design its systems so they are built around its operating model and organisational structure, and with fewer, clearly defined roles. The Bank aims to facilitate better control and greater transparency over changes to roles within the organisation, potentially reducing the number of role re-evaluations required.
- **The Bank made £10 million of purchases without following its policy to consult its central procurement team, raising questions about the degree of buy-in and compliance.** The Bank has recruited additional procurement expertise to improve the performance of its procurement function but it will also need to improve compliance with existing policies if it is to reap the benefits of such change. The procurement team and the Bank's Internal Audit identified up to 200 purchases above £25,000 made without Bank staff consulting the procurement team, despite there being a policy that staff should do so. We could find no evidence to suggest that individual staff were required to explain why they had not complied with the policy. Further investigation by the Bank, prompted by our examination, identified that procurement had not been consulted for £10 million of purchases. The Bank estimated that better value might have been achieved for £2 million worth of purchases and that this could have saved up to £200,000. The Bank is making further improvements to its procurement function and policy guidance. It informed us it intends to take follow-up action with individuals where there is future evidence of poor compliance with policies.

- **The Bank has 800 allocated but unoccupied desks in its headquarters on any given day but it told us it cannot increase occupancy levels quickly.**

In 2015-16 the Bank's data suggested it had 800 allocated but unoccupied desks at its Threadneedle Street headquarters each day. The Bank provides enough desks should all staff and desk-based contractors be in the building at the same time. These are unoccupied when staff are on leave or working elsewhere. Desk sharing is used in some areas but it is not mandatory across the Bank. Reasons provided to us for this approach included a lack of flexible telephony, cultural readiness, and the capacity of the wider infrastructure in the Bank's headquarters to cope with more people. In 2017 and 2018 the Bank replaced 1,000 desks and added 260 more desks in the Bank's headquarters to support more flexible deployment of staff. The change did not target financial savings. In December 2018 the Bank committed that, once the roll-out of new technology was complete, its aim would be to deliver increased adoption of desk sharing by February 2020. Thereafter, the Bank informed us it would aim to increase occupancy levels in its Threadneedle Street headquarters, but not before February 2020 and subject to consideration of work required to its infrastructure.

11 The Bank has introduced a cost and headcount cap but it has not indicated how long that will apply for.

Total Bank spending increased from £535 million in 2014-15 to £647 million in 2017-18. The Bank imposed stricter controls over both budgets and headcount in 2017-18 to contain its controllable spending at £476 million a year. It expects to stay within the cap in the "medium term". The Bank has committed to hold the costs of monetary policy and financial stability functions at £169 million a year for five years. It has not committed to a firm timeframe for its other activities. The Bank identified it would need to save £37.2 million in 2018-19 to accommodate known pressures on costs. Central Services need to absorb cost pressures of £11.5 million in 2018-19 to stay within budget, the most of any division. Cost pressures are likely to increase in later years from inflation and change. The Bank forecasts that cost pressures in each year will add between £17 million and £27 million to costs on top of the £37.2 million cost pressures identified for 2018-19 (paragraphs 2.8 to 2.10 and Figures 6 and 11).

12 The Bank is improving its ability to scrutinise and manage costs. The Bank has been used to its budget increasing each year as its responsibilities expanded. In 2017-18 the new finance director introduced more challenge around the setting of budgets and each area in the Bank was required to identify cost savings, amounting to £20 million overall. Finance has also introduced three-year business planning cycles, with three-year financial forecasts. In March 2018 the Bank formed a cost containment group of senior representatives from across the Bank to help drive improvements. To deliver the financial aims of its Central Services programme the Bank will need better information on costs. For example, the Bank has few measures of costs and inputs. At present, information on costs and information on performance are reported separately to senior staff within most parts of the Bank, reducing visibility of cost-effectiveness. The Bank has work under way to bring together cost and performance reporting. It also plans to make greater use of public sector benchmarks to help improve measurement of cost-efficiency (paragraphs 2.18 to 2.20 and Figure 10).

13 The Bank has initiatives under way to reduce costs but it does not yet have a robust and comprehensive view of the total savings it can sustain. Until recently the Bank has absorbed most cost pressures by adjusting historic budgets, deprioritising work and identifying immediate opportunities for savings. The forecast financial pressures will quickly put pressure on the Bank to deliver sustainable savings. At the time of our review the Bank did not have a comprehensive view of the profile of savings in the medium term or whether these were sustainable. In the longer term, the Bank estimates that the overall impact of its five Central Services projects could be a sustainable reduction in its operating costs of £9 million in 2020-21 and £15 million a year from 2021-22. Further work is needed to estimate savings for all initiatives and make adequate allowance for optimism bias in estimating the cost and speed of delivery. Without having a clear strategic assessment it risks making sub-optimal decisions on where to make savings and on how much work to de-prioritise in response to emergent financial pressures (paragraphs 2.21 to 2.30, Figures 11 and 12).

Conclusion on value for money

14 Central Services needs reform, as the Bank has recognised over the past year. However, it is fair to describe the Bank as a relatively conservative institution. For a leading central bank this is appropriate in many ways, but it can make the adoption of modern practices in administration and management, and letting go of those that appear to have outlived their usefulness, more challenging.

15 Based on the evidence we have seen, the Bank is moving in the right direction. But it needs to step through the changes needed firmly and expeditiously, bringing its people with it, if it is to deliver value for money from its Central Services. Change will require investment, time, sustained leadership and support from across the Bank. It will need to bear down on its existing costs as much as possible if it is to find the headroom needed for investment and live within its self-imposed spending cap.

Recommendations

16 A transformed Central Services will increase the likelihood of the Bank achieving its strategic goals. Transforming services will be a significant challenge. We recommend that:

- a the Bank should set out a clear vision of how its Central Services will work in the future.** The Bank's current work to establish a target operating model will be crucial to establishing how Central Services will need to change, and exactly how the Bank should plot the path to getting there. The development of the model should help the Bank decide realistically how much change the Bank is prepared to deliver, the likely timescale over which this should occur and how much services should cost;
- b the Bank's leadership should reinforce the case for change.** Visible support from all leaders will be crucial in securing buy-in from staff across the Bank for change. Central Services will need to demonstrate the benefits of transformation to all staff in the Bank;

- c the Bank should establish a robust framework for monitoring the delivery of the expected benefits from its investment in Central Services, measured in terms of both performance and cost;**
- d the Bank should have a clear plan for how it will manage within its budget cap over the medium term.**
 - This plan should set out how much of the expected cost pressures will be met from reprioritisation of existing activities and how much through one-off and sustainable savings. Sufficient allowance should be made for optimism bias in planning. Performance against this plan should be monitored to ensure planned-for savings are delivered. Accountabilities for delivering expected savings should be clear.
 - The plan should set out the expected sources of savings and their profile over the five-year period. Any changes to the delivery plans of key projects should be factored into the plan as they occur and used to assess any impact on the Bank's ability to operate within the budget cap; and
- e the Bank should further strengthen its ability to monitor and manage performance and costs by:**
 - reporting performance and cost together rather than separately as at present, with a greater focus on unit cost trends where this is appropriate; and
 - performing more regular benchmarking against central services in other organisations.