



National Audit Office

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## **Report**

by the Comptroller  
and Auditor General

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## **Bank of England**

# Managing the Bank of England's Central Services

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Bank of England

# Managing the Bank of England's Central Services

Report by the Comptroller and Auditor General

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National Audit Act 1983 for presentation to the House of  
Commons in accordance with Section 9 of the Act

Sir Amyas Morse KCB  
Comptroller and Auditor General  
National Audit Office

17 December 2018

This report examines whether the Bank of England has a sufficiently ambitious strategy for developing efficient and cost-effective Central Services appropriate to support the Bank to deliver change and control costs.

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## Key facts

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**£647m**

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

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**£188m**

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

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**£11.5m**

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

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- £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.

# Part One

## The role of the Bank of England's Central Services

**1.1** This part sets out:

- the Bank of England's mission, responsibilities and financing;
- the role of its Central Services division (Central Services); and
- its Vision 2020 strategy.

### **The Bank's mission, responsibilities and financing**

**1.2** 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". The Bank is responsible for:

- issuing banknotes;
- regulating and supervising banks and financial institutions, including insurance and financial market infrastructure;
- setting monetary policy;
- maintaining financial stability in the UK by identifying and taking action to remove or reduce systemic risks with a view to protecting and enhancing the resilience of the UK financial system; and
- maintaining the national payments infrastructure that allows banks, businesses and individuals to make payments to each other.

**1.3** The Bank's policy-making functions are performed by three statutory committees:

- The Monetary Policy Committee (MPC) is responsible for meeting an inflation target set by the government, and seeks to do so by utilising monetary policy tools, such as setting the Bank rate;
- The Financial Policy Committee's (FPC) primary objective is to protect and enhance the stability of the UK financial system; and
- The Prudential Regulation Committee (PRC) (formerly the board of the Prudential Regulation Authority) is responsible for prudentially regulating deposit-takers, insurers and the largest investment firms in the UK.

**1.4** The Bank generates income to cover the cost of fulfilling its statutory remit. In 2017-18 its net operating income was £785 million. It charges fees to bodies that are subject to prudential regulation (£280 million) and for banking services provided to commercial banks (£132 million) and government bodies (£135 million, of which £128 million was for the issue of banknotes). It raised income of £177 million from financial instruments and had £61 million of other income.<sup>1</sup> Profit made by the Bank is shared with HM Treasury. The Bank receives no direct taxpayer funding or grants from government.

### The Bank's governance and executive structure

**1.5** The Bank is a corporation wholly owned by the UK government, with HM Treasury as its sole shareholder. It is overseen by a board of directors, known as the Court of Directors (the Court), who are appointed by the Queen on the recommendation of the Prime Minister and the Chancellor of the Exchequer. The Court is responsible for setting and monitoring the Bank's strategy and making key decisions on spending and on some key appointments.

**1.6** The five executive members of the Court are the Governor and the four deputy governors. HM Treasury appoints the deputy governors and the external members of the statutory policy committees. The deputy governors have designated responsibilities for Monetary Policy, Financial Stability, Markets and Banking, and Prudential Regulation. The Court appointed another deputy governor as the Bank's Chief Operating Officer, who is not a full member of the Court but attends its meetings. The remaining members of the Court are non-executive directors. The Governor and the Bank's statutory committees are supported by the Bank's five divisions, including the Central Services division headed by the Chief Operating Officer (**Figure 1** overleaf).

### The Bank's Central Services

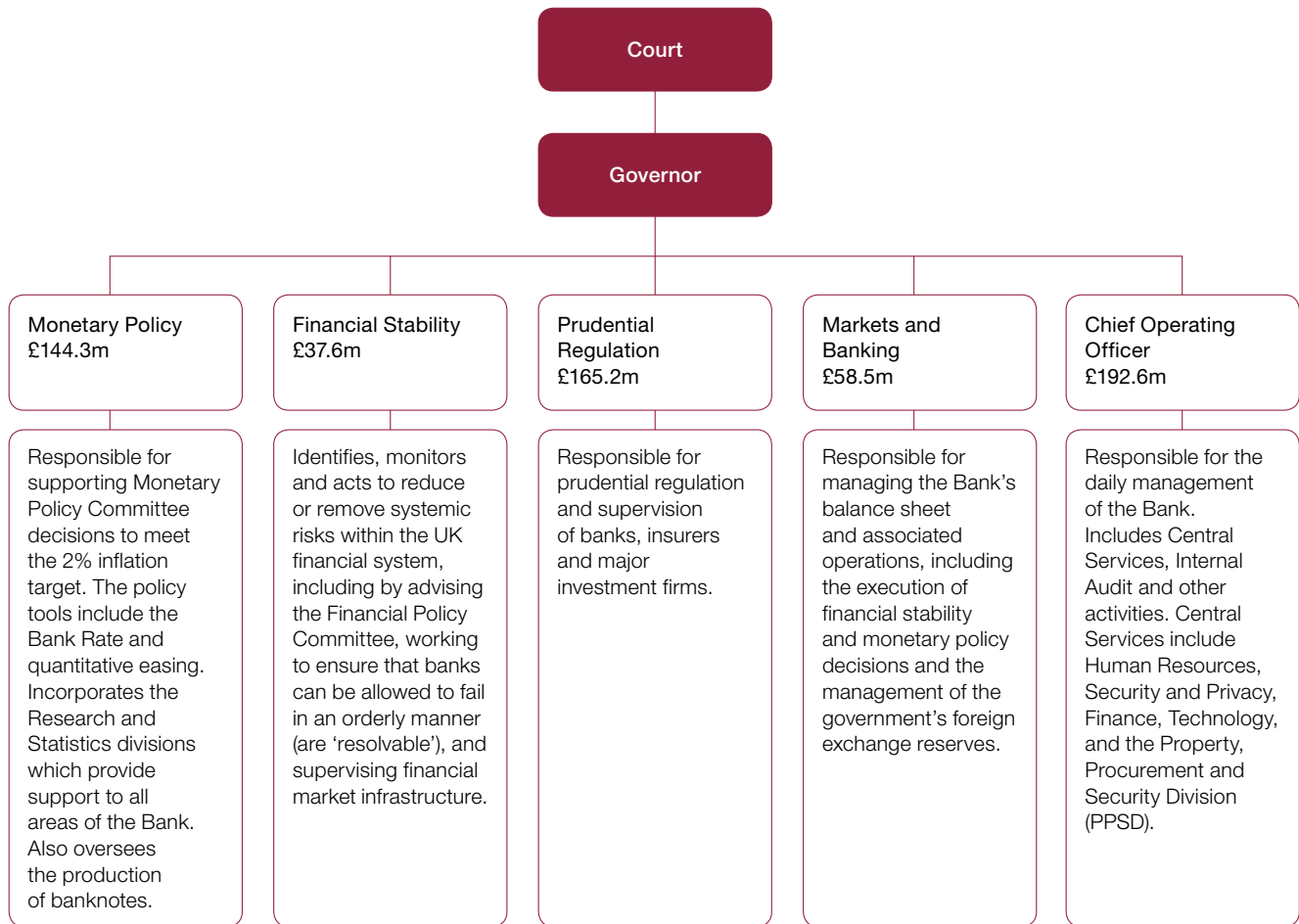
**1.7** The Bank's Central Services comprises its Finance directorate, Human Resources directorate (HR), Property, Procurement and Security division, the Technology directorate, and the Security and Privacy division. **Figure 2** on page 15 summarises the functions of Central Services.

### Recent expansion of the Bank's responsibilities

**1.8** Over the past 10 years Parliament has passed legislation to expand the Bank's remit, mainly in response to the financial crisis. Among a range of other changes the Financial Services Act 2012, for example, created a new independent Financial Policy Committee (FPC) and the Prudential Regulation Authority (PRA) as a subsidiary of the Bank. The Bank of England and Financial Services Act 2016 then brought the PRA within the Bank, and created a new committee of the Bank to be known as the Prudential Regulation Committee (PRC). The Bank has continued to acquire additional responsibilities, for example preparations for the UK's exit from the EU, the management and supervision of key financial infrastructure, facilitating financial markets reform and bringing about the structural reform of the banking sector.

<sup>1</sup> Income from financial instruments relates to the Cash Ratio Deposit (CRD) scheme. The policy functions for monetary policy and financial stability are financed by the CRD regime. Banks and building societies are required to place an interest-free deposit at the Bank which is a set percentage of their deposit base. The Bank then invests those deposits in interest-yielding assets, generating income to finance its policy functions.

**Figure 1**  
The structure of the Bank of England



**Notes**

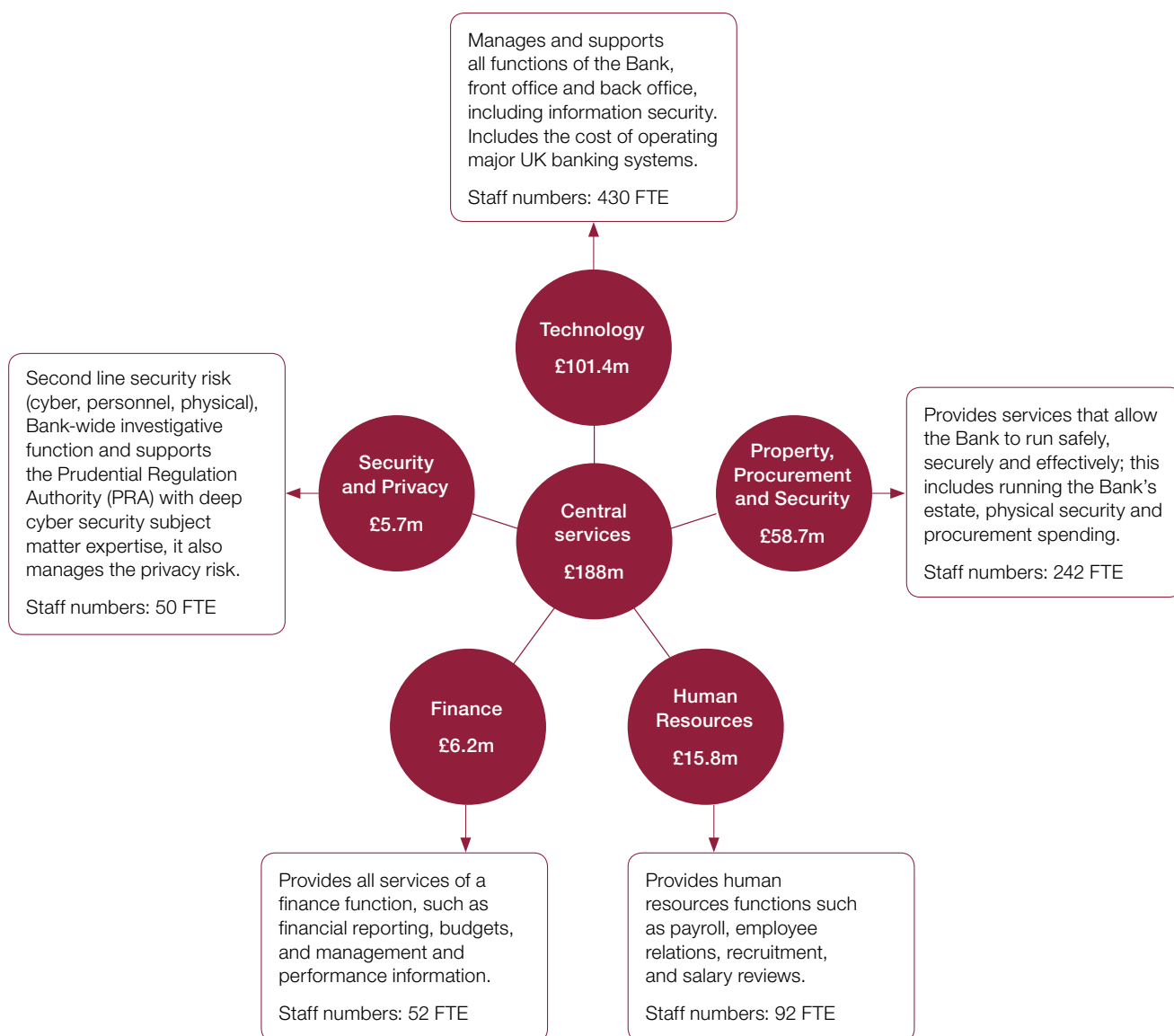
- 1 All spending figures are for the 2017-18 financial year and include pensions and investment.
- 2 This diagram reflects the Bank's financial hierarchy and does not reflect the Bank's organisational structure and reporting lines.
- 3 The Monetary Policy area's spending includes the Notes operating area (£105.2 million), which includes the production of banknotes, and Research and Statistics (£18.5 million).
- 4 Activities not included above are 'other support', which includes Legal, Communications and support to governors, (£37.5 million) and the central budget of £11 million which includes performance awards; when included, the total cost equates to £646.7 million. Of which, the total controllable costs for 2017-18 is £474.3 million (total cost minus banknotes production cost, £89.5 million, and Pensions, £82.9 million).
- 5 There are four sub-committees within the Court: Audit and Risk Committee, Remuneration Committee, Nominations Committee and Transactions Committee.

Source: National Audit Office analysis of Bank of England information



**Figure 2**  
The structure of the Bank of England's Central Services

Within Central Services, the Technology directorate is the largest by spend and staff numbers



**Notes**

- 1 Spending is for the 2017-18 financial year. Staff numbers are at February 2018.
- 2 Technology headcount figures exclude a share of the full-time equivalent (FTE) value of staff time charged to investment projects (193 FTE across the Bank). These staff are not reported at a divisional level as they are managed across the entire investment portfolio, which cuts across different divisions; however, the associated costs are allocated to individual projects and hence included in the cost figures above.
- 3 Human Resources costs include £2 million for 29 outward secondees. We have excluded these FTE from HR staff numbers.
- 4 As set out in Figure 1, Central Services sits within Chief Operating Officer's budget, alongside audit and assurance activities (£4.7 million).

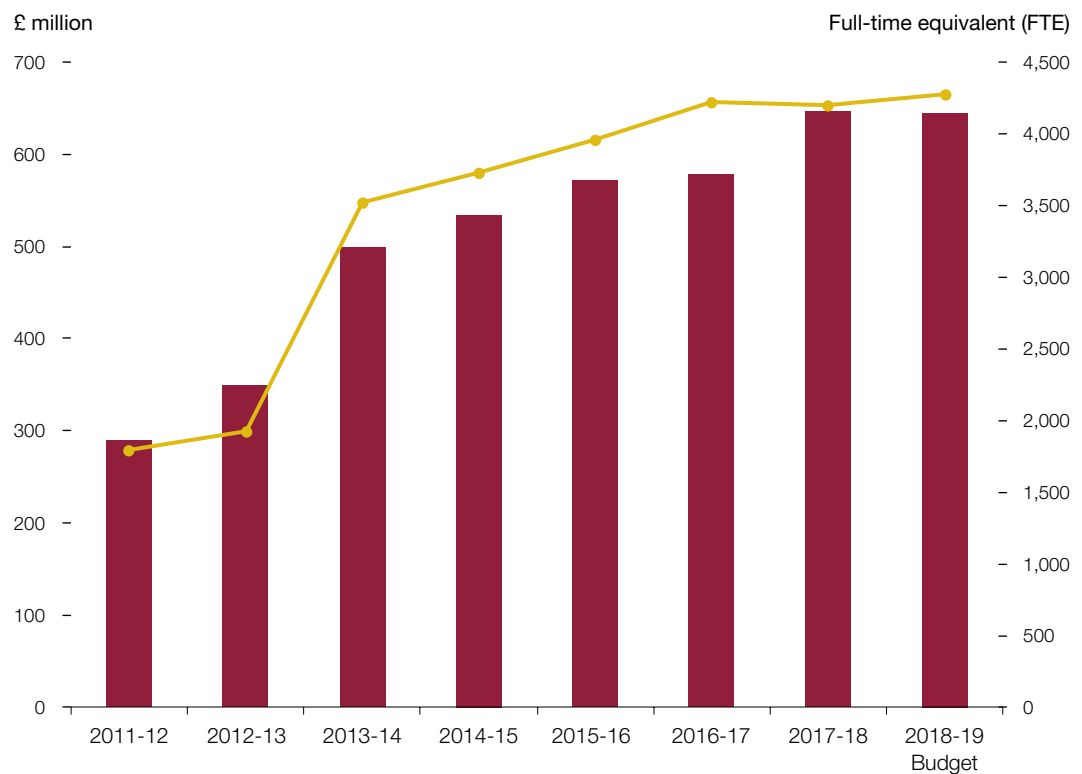
Source: National Audit Office analysis of Bank of England information

**1.9** Overall the expansion in the Bank's responsibilities has resulted in an increase in the number of staff. The number more than doubled between 2011-12 and 2017-18 (**Figure 3**). The main increase arose from the creation of the PRA in April 2013 when 1,185 staff transferred to the Bank. Staff numbers increased by 13% between 2014-15 and 2017-18.

**1.10** In October 2017 the Bank imposed a headcount cap to limit cost increases. In 2018-19 it committed to contain costs at 2017-18 levels. The costs of pensions and note production are excluded from this cap. The Bank has committed to containing its costs in the medium term. It will manage this through a cost containment and re-prioritisation programme and will fund any future changes through efficiency savings.

**Figure 3**  
Total Bank of England spending and staff numbers over time

The Bank's spending and staff numbers have increased year-on-year since 2011-12



■ Total Bank cost (£m)	291	350	499	535	572	579	647	644
● Total Bank staff numbers (FTE)	1,796	1,922	3,517	3,733	3,960	4,219	4,202	4,281

**Notes**

- 1 From 2014 the Bank has increased responsibilities, including additional work to support the UK's exit from the European Union.
- 2 Cost figures are in 2017-18 prices and staff numbers are as at the end of the Bank's financial year (March to February).
- 3 Budgeted figures used for 2018-19.

Source: National Audit Office analysis of Bank of England annual reports and accounts

**1.11** The integration of the PRA into the Bank added two leasehold offices to the Bank's estate in London. During 2017-18 its estate comprised three offices in London (one sub-let), 12 regional agencies (two based in Threadneedle Street and the rest in rented premises), banknote production sites, and a sports centre (**Figure 4** overleaf). It generates an income from sub-letting some sites. Most of its staff are based in London.

### **The One Bank and Vision 2020 strategies**

**1.12** In 2013 and 2014 the Bank identified a need to develop a more unified single institution out of the recently expanded organisation. Following the integration of the PRA, for example, the Bank was operating three different pay, grading and pension frameworks excluding the arrangements for the Governor and deputy governors. These frameworks brought with them very different reward arrangements, resulting in different splits between pay, pensions, benefits and performance awards.

**1.13** External reviews of the Bank's operations had also identified a need for change. For example, in its report *Accountability of the Bank of England* in October 2011, the Treasury Select Committee had identified the need for the governance structure to be strengthened and for the Bank to be more open about its work. It also commented on the need for greater accountability, given the additional responsibilities given to the Bank.

**1.14** The Bank launched its three-year One Bank strategy in March 2014. The strategy sought to re-clarify the Bank's purpose through a One Bank philosophy. To support its mission, the Bank developed four strategic pillars, under the headings 'Diverse and Talented', 'Analytical Excellence', 'Outstanding Execution' and 'Open and Accountable'. The strategy was underpinned by a public commitment to deliver 15 initiatives.

**1.15** In June 2017, we reported on the Bank's progress with delivering the One Bank strategy. We found that the Bank had made progress in bringing together the organisation, delivering 14 of the 15 principal initiatives, including initiatives to create a single pay structure across the Bank and work to put in place a technology infrastructure that would better support the Bank's working. However, some of the more challenging parts of its strategy such as cultural change and delivering significant data projects required a longer-term effort.

**1.16** In May 2017, the Bank updated its strategy (**Figure 5** on page 19). Vision 2020 is a three-year strategy to make the Bank more effective by improving communication and ways of working. The Bank wants to improve public understanding and therefore the impact of its policies. It also wants to make its internal structures more flexible, which will allow it to prioritise and bring together the right people to solve problems.

**Figure 4**

## The Bank of England's national estate

The Bank's national estate includes a printing works, cash centre, regional agencies and a sports centre

Location and purpose	Headcount (full-time equivalent as of Feb 2018)	Net internal area <sup>1</sup> (square metres)	Freehold (F) or Leasehold (L)	Direct cost 2017-18 (£000)	Revenue 2017-18 (£000)
<b>Operational buildings</b>					
<b>Moorgate, London</b> Office space for the Bank's Prudential Regulation division.	1,377	15,703	L	14,189	–
<b>Threadneedle St, London</b> The Bank's heritage listed headquarters. Mainly office space, it also houses the Bank of England museum, the Centre for Central Banking Studies, and gold storage. The Bank contains a gym, multiple data centres, storage space and equipment/machinery including energy generators and other non-stop resilience equipment supporting national infrastructure/ payments systems.	2,628	66,500	F	13,736	262
<b>Printing Works, Debden</b> Banknote printing and distribution facilities and a number of leased areas. Occupied by the Bank (owner) and tenants.	99	55,797	F	10,087	6,826
<b>Agencies: Belfast, Leeds, Exeter, Southampton, Birmingham, Cardiff, Warrington, Nottingham, Glasgow and Newcastle<sup>2</sup></b> Regional base for agents, who analyse regional data and support the Bank's engagement around the country. Nine of these agencies now operate from serviced offices.	51	887	L	4,125	–
<b>Cash centre, Leeds</b>	23	2,900	L	1,093	–
<b>Other buildings</b>					
<b>No. 1 Canada Square, London (until November 2018)</b> Property inherited from the former Financial Services Authority. The Bank sub-let the property until its lease expired in November 2018.	N/A	2,544	L	588	882
<b>Bank of England Sports Centre, Roehampton, London<sup>3</sup></b> Members of the public can join the Sports Centre for a fee. Bank staff can also apply for discounted membership. Income is generated from venue hire.	24	125,509	F	4,256	3,637

**Notes**

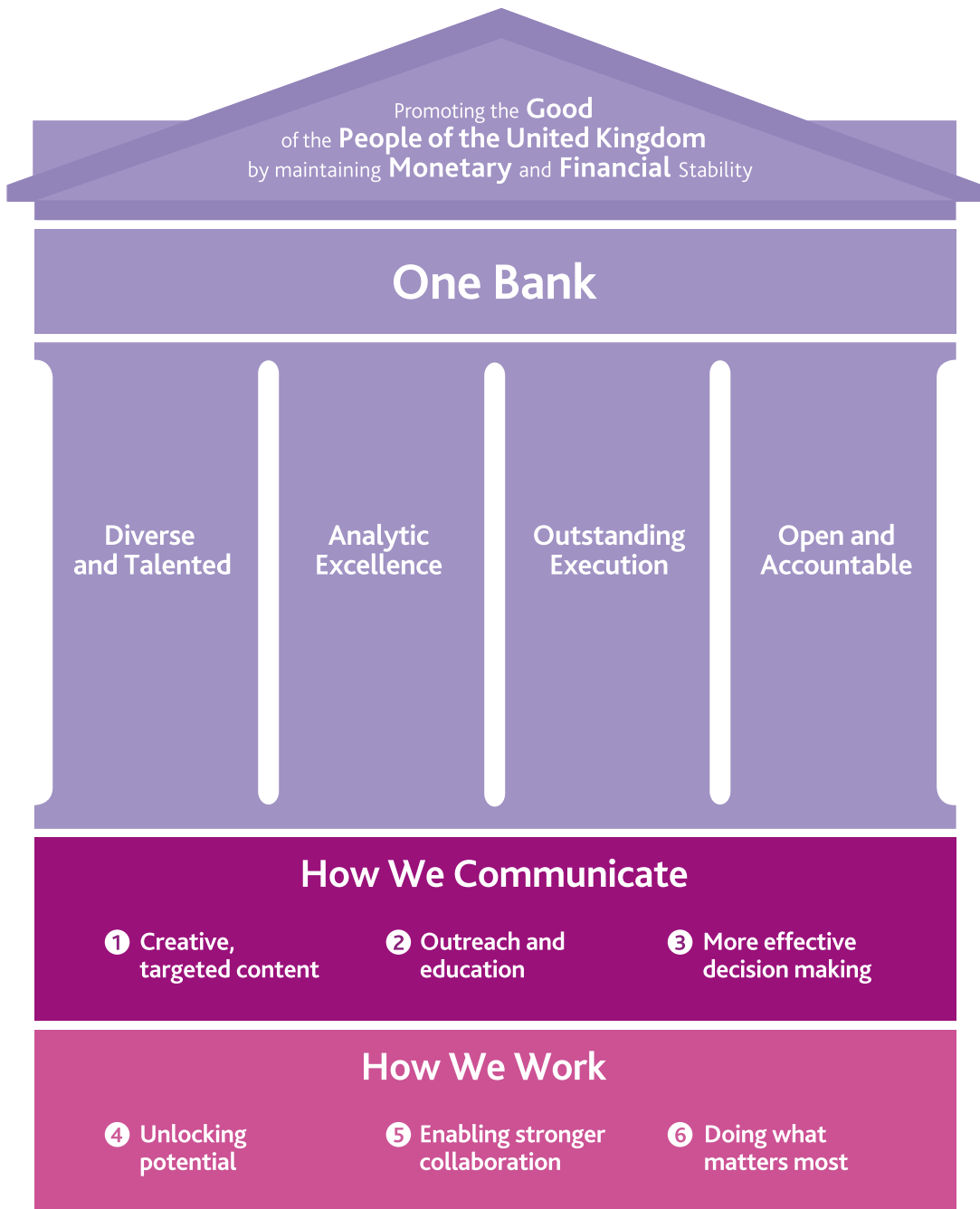
- 1 Net internal area (NIA) is a commonly used metric to quantify the usable area within a building. It includes areas such as office space, entrance lobbies and communal kitchen space but excludes areas such as toilets, stairwells and plant rooms.
- 2 Two agency functions (London and South East) work from Threadneedle Street. The NIA area figure is for leased agencies at the end of 2017-18. The Bank moved four agencies to serviced accommodation through the year. The NIA figure does not include the space in these offices. Costs cover all offices used in year.
- 3 The Bank of England Sports Centre includes tenanted premises (The Grange) and excludes nine acres of grounds sold to the Lawn Tennis Association on a 125-year lease. The NIA includes the Grange's NIA (4,103sqm) and the total grounds of the sports centre (circa 30 acres). Area of grounds is a more appropriate measure than NIA (buildings only). The NIA for the sports centre is 3,370 square metres.
- 4 The Bank receives a small amount of ground rent from freehold properties (1 & 2 Lothbury and 19 Old Jewry, London) not shown here.
- 5 Direct costs include depreciation and amortisation and exclude investment costs.

Source: National Audit Office analysis of Bank of England information

**Figure 5**

Vision 2020

The Bank's new strategy was launched in May 2017 and builds on the 2014 One Bank strategy



Source: Bank of England annual reports and accounts (1 March 2017 to 28 February 2018)

# Part Two

## Transforming Central Services

2.1 This part examines:

- the Bank of England (the Bank's) plans for transforming its Central Services;
- how the cost of Central Services has changed over time;
- how the Bank's costs compare with those of other public bodies; and
- the Bank's progress in delivering sustainable change in Central Services and its further plans.

### **The Bank recognised in 2017 that it needed to transform its Central Services**

2.2 During the period of the One Bank strategy, 2014 to 2017, Central Services successfully delivered a series of initiatives to simplify operations and facilitate more flexible use of staff and resources. Central Services were the focus for a number of significant initiatives, including:

- **aligning terms and conditions across the Bank.** In April 2013, as part of the creation of the Prudential Regulation Authority (PRA), 1,185 staff transferred to the Bank from the Financial Services Authority. In 2014 Central Services established a new pay scale to align terms and conditions across the Bank and introduced a new performance management system. The Bank now operates a single pay scale and has only one active pension scheme;<sup>2</sup>
- **bringing together management of its technology function.** Until 2015 some divisions in the Bank had their own technology units. The Bank brought together its technology operations within Central Services. This was a major task. Central Services identified that it would need to support around 182 data systems and 2,700 datasets; and

<sup>2</sup> The Bank operates a single non-contributory defined-benefit pension scheme based on career average pensionable pay. The former final salary schemes are closed to future accrual for service but a link to final salary remains for current active members.

- **introducing more flexible workspace.** In 2017 the Bank approved work to introduce workspace to support flexible redeployment of staff in London offices. The project cost £6.2 million and was expected to finish a year before the scheduled completion date of December 2019. The project did not aim to deliver any financial savings. It replaced more than 1,000 desks with workstations designed to accommodate flexible working and desk sharing. It also added a further 260 desks in parts of its headquarters. The Bank expects the project to enable more desk sharing as it introduces technology upgrades, such as flexible telephony.

**2.3** In March 2017 the new Chief Operating Officer initiated planning to improve performance and reduce costs in Central Services as a whole. In early 2018, in an initial assessment, the Bank identified that it would need to redesign central functions for the future to make them more agile, responsive and efficient. Its assessment concluded that the cost of Central Services provision was high. A lack of sustained investment had resulted in fragmentation of core business systems, inefficiencies and duplication. Issues included:

- low levels of system compatibility across Central Services functions;
- a lack of system agility resulting in inflexible reporting and contradictory management information;
- data needing to be manually transferred across multiple functions within Central Services resulting in error and inconsistency;
- low confidence in the effectiveness of key controls and the ability to monitor compliance; and
- 44% of staff thought poor processes and procedures across the Bank wasted staff time compared to 30% who felt favourably.<sup>3</sup>

**2.4** The Bank has a number of projects under way to improve Central Services:

- **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 guiding principle is that services should be simpler, more effective and more secure. The Bank expects to finalise the full business case for change by April 2019. Initial 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. The Bank expects to achieve further savings from changes to Central Services operations;

<sup>3</sup> In the autumn 2017 annual employee survey 44% of staff at the Bank answered unfavourably to the question "where I work we rarely waste time on poor processes and procedures". 30% of staff at the Bank answered favourably. This relates to all processes and procedures across the Bank, not just those within Central Services.

- **Procurement 2020** is a two-year programme to overhaul the Bank's procurement by March 2019. The Bank has redesigned the central procurement function and strengthened its procurement expertise. In 2017 and 2018 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 further commercial board in early 2019 and a new procurement policy. It is implementing a new procurement tool in phases with full implementation by March 2020. It expects to achieve annual savings of £10.8 million in 2020-21 and £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; and
- **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 operation costs of £1.6 million.

**2.5** Over recent years the individual functional areas within Central Services have had plans to guide the development of their services but not as part of an overall vision for Central Services. In the technology area, the team has developed a three-year investment plan based on a good understanding of what the various parts of the Bank would need. Decisions taken on technology needs are closely linked to likely workforce needs, likely working practices and property and workspace needs. All of these are influenced by the likely availability of financial resources. For example, the Bank has created flexible space in Threadneedle Street to foster flexible deployment of staff, but capacity constraints delayed flexible telephony intended to help more staff share desks.

**2.6** The Bank has acknowledged that it needs a Central Services target operating model to coordinate changes to its future operations. As part of its OBST programme the Bank will be consulting with the wider business on the changes proposed including designing and agreeing a target operating model for Central Services. This work is under way and the Bank intends to finalise its business case, including a proposal for the Central Services target operating model, in April 2019. In October 2018 the Bank's investment board approved £1.2 million of funding for the next planning phase of the programme.

**2.7** In November 2018, to provide impetus to its transformation programme the Bank adopted a new strategic goal to "enhance the strength, security and efficiency of the Bank's internal operations".



## Since 2014-15 spending on Central Services has increased in real terms

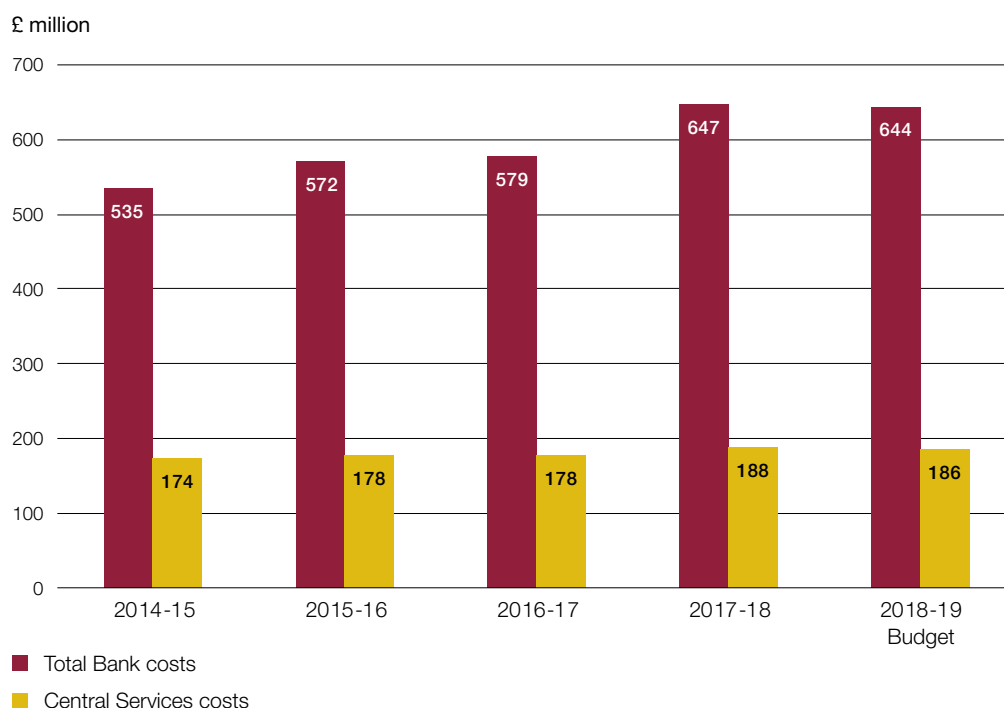
**2.8** The cost of the Bank's Central Services has increased in real terms but reduced as a share of the Bank's total costs (**Figure 6**). Between 2014-15 and 2017-18 Central Services' annual costs increased from £174 million to £188 million. Over that period staff numbers across the Bank increased by 13%. The cost of Central Services fell as a share of total Bank spending, which increased in real terms from £535 million in 2014-15 to £647 million in 2017-18 (an increase of 21%). In 2017-18 Central Services accounted for 29% of the Bank's total costs.

**2.9** The Bank has reduced spending on some activities to invest in others. Central Services reduced spending on Human Resources (HR) by almost 30% in real terms, over the four years to 2017-18, due mainly to a reduction in investment activity. Spending on technology increased from £84 million to £101 million, due in part to increased spending on upgrading its systems (**Figure 7** overleaf).

### Figure 6

#### Total Bank of England and Central Services costs

The cost of Central Services has increased over time but reduced as a share of the Bank's total costs



#### Notes

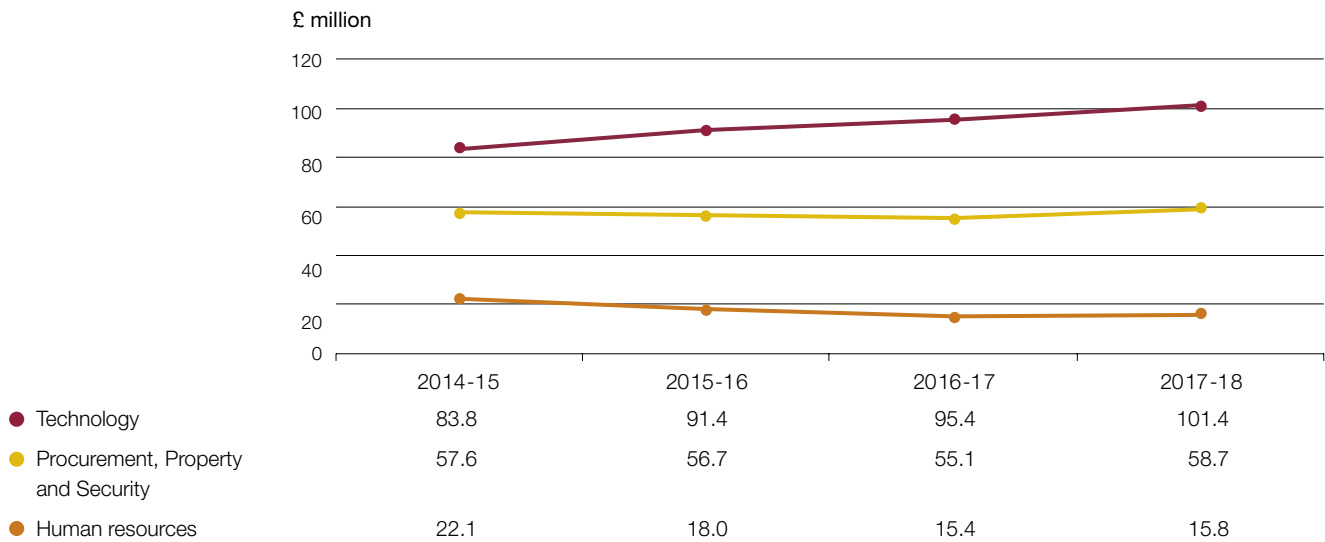
- 1 Figures are in 2017-18 prices.
- 2 Total Bank costs include pensions and investment.
- 3 Central Services' costs in 2017-18 exclude £4.7 million for audit and assurance activity and therefore differ from the Chief Operating Officer costs shown in Figure 1.

Source: National Audit Office analysis of Bank of England data

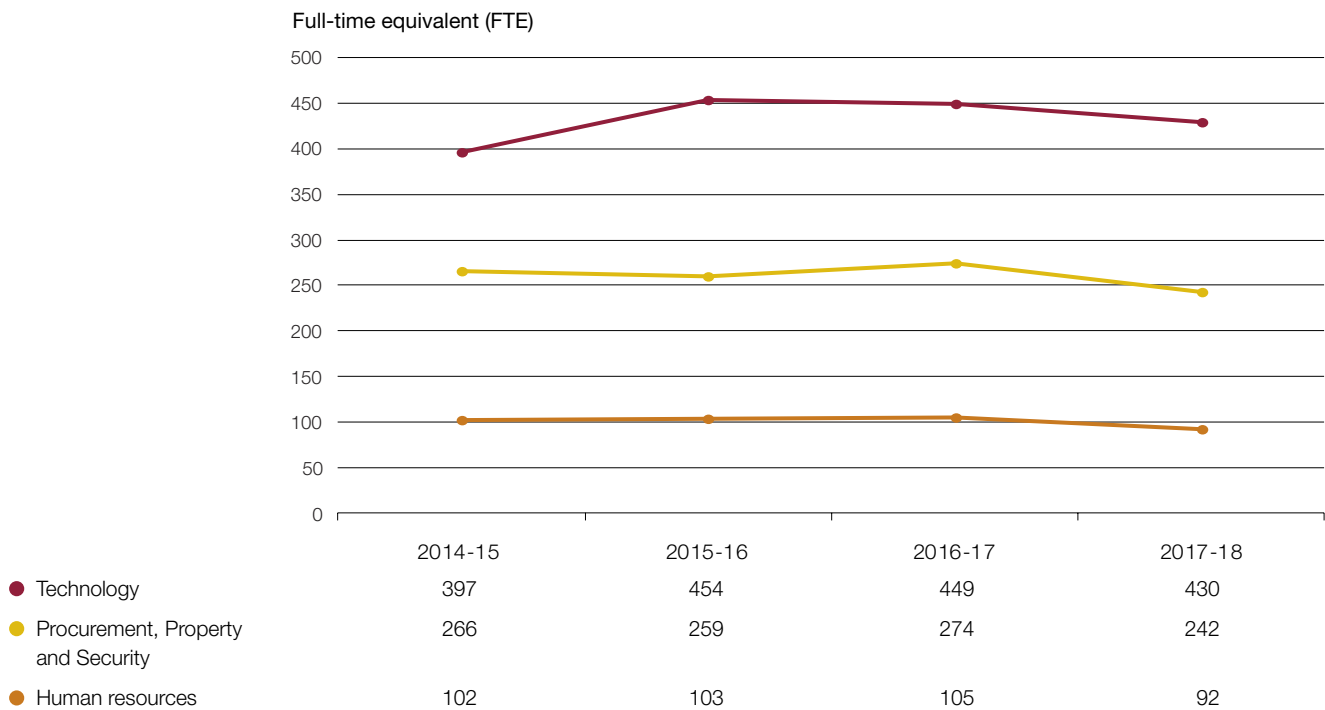
**Figure 7**

Trend analysis of the cost and staff numbers of Central Services' largest functions

Technology costs have increased with additional investment in systems



Staff numbers reduced in each area in 2017-18



**Notes**

- 1 Figures are in 2017-18 prices and include pensions and investment.
- 2 Human Resources costs include the cost of outward secondees. We have excluded these FTE from HR staff numbers.
- 3 Technology headcount figures exclude a share of the full-time equivalent (FTE) value of staff time charged to investment projects (193 FTE across the Bank). These staff are not reported at a divisional level as they are managed across the entire investment portfolio, which cuts across different divisions; however, the associated costs are allocated to individual projects and hence included in the cost figures above.

Source: National Audit Office analysis of Bank of England information

**2.10** Trend data in Figure 7 shows that the costs of Central Services' largest three functions increased in 2017-18 despite reductions in the number of staff. Factors such as rent, staff salaries or the number of external contractors could also drive costs. Professional fees for technology change increased from £5.3 million in 2016-17 to £11.6 million in 2017-18 and rents and rates increased from £25.9 million to £29 million.

### **Our benchmarks indicate that some areas of the Bank's services are expensive**

**2.11** In 2017-18 the Bank participated in an unpublished study by the Bank for International Settlements (BIS), comparing its staffing levels to those of a range of other central banks from advanced and developing economies and with varying degrees of internal service centralisation. The results showed that the provision of similar central services accounted for around 25.7% of Bank staff, compared with the median of 29.1% for all central banks (**Figure 8**).

**2.12** The costs of Central Services appear higher than other UK public sector benchmarks against most measures (**Figure 9** overleaf and Appendix Three). We compared the Bank to benchmarks compiled by the Chartered Institute of Public Finance and Accountancy (CIPFA) using data supplied by more than 80 public bodies in the UK, covering central and local government, and the police, fire and health sectors. We compared the Bank to the medians for all public bodies, the comparison used by CIPFA, and to the medians for central government bodies. Inevitably all organisations are different and interpretation is required to consider whether differences from benchmarks are due to cost and efficiency, or to unique and unalterable characteristics of the benchmarked organisation.

### **Figure 8**

#### Comparisons of staffing levels with comparable central banks

**The Bank of England has a lower proportion of staff in Central Services than other central banks**

	Central Services	Human Resources	Technology	Property, Procurement and Security	Finance
	(%)	(%)	(%)	(%)	(%)
Bank of England	25.7	2.3	14.6	6.5	1.5
All central banks	29.1	3.5	9.2	9.9	3.6
Percentage point difference	3.4	1.2	5.4	3.4	2.1
Similar central banks	35.4	4.6	15.7	6.7	3.7
Percentage point difference	9.7	2.3	1.1	0.2	2.2

#### **Notes**

- Staffing levels are measured as full-time equivalents (FTEs) as a percentage of total FTEs.
- The Bank identified five central banks it considers similar using the following criteria: they are advanced economies which the Bank deems to be similar in regulatory posture; they support a broad range of central bank functions; they are not a subsidiary of a wider central bank function; and they share a similar, predominantly in-house resource profile.
- Median figures used for comparator populations.
- Overall Central Services' percentage includes other small Central Services functions such as information security.

Source: National Audit Office analysis of Bank of England information

## Figure 9 Comparison of Central Services spending with public sector bodies

### Central Services are more expensive than UK public sector bodies against most benchmarks

Measure	Bank of England	Public sector benchmark	Gap	Central government benchmark	Gap
<b>Human Resources (HR)</b>					
HR cost as a percentage of organisational running costs	1.77%	1.52%	16.2%	1.80%	1.9%
HR cost per full-time equivalent (FTE)	£2,239	£1,260	77.7%	£1,946	15.1%
Number of employees per HR staff member	45.4	50.1	9.3%	49.8	8.9%
Cost of recruitment per post filled	£3,191	£798	300%	£1,892	68.7%
<b>Property</b>					
Total property costs per net internal area (NIA) (square metres)	£338	£241	40.3%	£434	22.0%
Total building operation costs (revenue) per square metre NIA	£232	£124	86.6%	£172	35.1%
Total property occupancy/ownership costs/ revenue per square metre NIA	£98	£109	9.8%	£208	52.7%
Cost of estate management as a percentage of organisational running costs	0.12%	0.35%	66.0%	0.34%	65.2%
Total office accommodation (square metres) per employee	9.0	13.6	33.9%	14.3	37.2%
Number of work stations per FTE	1.04	0.81	29.3%	1.09	4.6%
<b>Technology (ICT)</b>					
Cost of ICT as a percentage of organisational running costs	8.4%	3.4%	146.5%	6.3%	33.6%
Cost of providing support per end user	£1,643	£451	264.3%	£1,392	18.0%
Acquisition cost per laptop	£733	£732	0.1%	£858	14.6%

#### Notes

- 1 Benchmarks are medians using 2016-17 benchmark data and definitions from the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 2 The "gap" is presented in relative terms (the percentage difference of the Bank's performance from the relevant benchmark).
- 3 Around a third of HR costs fall outside the CIPFA definition, including £1.4 million for administering the Bank's pension scheme, £0.5 million for payroll, external secondments (£1.9 million), full-time study costs (£0.5 million), payments to charities (£0.3 million), and dental costs (£0.3 million).
- 4 Property costs relate to Threadneedle Street and Moorgate premises. We exclude agencies and unusual property such as the printing works. Most of the Bank's property costs relate to building operation costs because Threadneedle Street is a freehold property.
- 5 Net internal area (NIA) is a commonly used metric to quantify the usable area within a building. It includes areas such as office space, entrance lobbies and communal kitchen space but excludes areas such as toilets, stairwells and plant rooms.
- 6 Information Communication Technology (ICT) cost excludes the £42 million cost of supporting UK banking infrastructure and £14 million for data.
- 7 The Bank's figure for acquisition cost per laptop is for 2017-18.

Source: National Audit Office analysis Bank of England information and CIPFA data

**2.13** The comparable cost of human resources in the Bank is more than most public sector benchmarks. The Bank performs slightly better than central government organisations for its spend on human resources as a proportion of running costs. However, the measure is likely to be affected by significant organisation spending on technology and banknotes production as part of its running costs. The relative cost of human resources per Bank employee of £2,239 is above the benchmarks. The difference is partly driven by the relatively high number of HR staff compared with the size of the workforce. The cost of recruitment is almost 70% more than central government bodies, at more than £3,000 per post filled against a benchmark of £1,892 for central government bodies. The Bank has incurred additional costs in recruiting specialist staff for technology and EU withdrawal. It also incurs relatively greater costs when recruiting deputy governors, non-executive directors and external members of the Bank's committees. The Bank has reduced its use of recruitment agencies to help control costs.

**2.14** Property benchmarks provide a variable picture of performance depending on which measure is used. The Bank spends £28 million a year on its London offices. Its property costs for these offices are 22% less than the central government benchmark. The Bank benefits from owning the freehold for Threadneedle Street. Most of its costs – £20 million a year – arise from operating and maintaining its London offices, 35% more than the central government benchmark. The Bank's use of office space per employee, at nine square metres per employee, is more than five square metres less than the median of central government bodies. The Bank's measure of net internal area uses a narrower definition of office space than the definition used in the CIPFA benchmark due to unusual facets of its heritage listed building, excluding, for example, the entrance lobbies. There is scope to make savings by reducing the number of work stations from more than one desk per full-time equivalent to 0.8 (the benchmark for all public bodies), reducing the Bank's need for office space (see paragraph 2.16).

**2.15** The comparable cost of technology in the Bank is 34% higher than the median benchmark for central government bodies. The comparison excludes the £42 million cost of supporting critical national payment systems and the cost of obtaining market data of £14 million. The Bank spends 8.4% of its running costs on ICT, compared to the central government median of 6.3%. The acquisition cost per laptop of £733 was 15% less than the £858 cost for central government bodies. The cost of technology support to internal users, such as the provision and maintenance of technology equipment and virus protection, was £1,643 per user in 2016-17, more than central government bodies. The Bank reduced the cost to £1,260 in 2017-18. It implemented a new IT Service Management tool, which enabled a 40% reduction in service desk staff. CIPFA benchmark data are not yet available for that year to judge performance.

## **Our work indicates a number of factors are reducing effectiveness and contributing to costs**

**2.16** We examined several 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 suggest three issues that need to be addressed to improve effectiveness and reduce costs:

- **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 rather than a small number of roles. Processes have evolved to support that complexity, with associated costs to oversee and manage these. For example, in human resources the Bank operates two processes, in addition to the annual appraisal and promotion processes, whereby an employee's grade and pay may be increased. Since 2015 there were around 200 in-role promotions (which are subject to HR review but are not competed), around 5% of all staff. Staff can also progress where an existing role is re-evaluated at a higher pay scale. Around 200 roles, which may involve more than one person, have been re-evaluated since 2015. This is equivalent to around a quarter of all roles in the Bank. The Bank informed us that changes planned under the OBST programme are intended to facilitate better control and greater transparency over changes to roles within the organisation, significantly 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 strengthened procurement expertise to significantly improve its day-to-day procurement but it will need to improve compliance with existing policies if it is to reap the benefits of such change. The Bank spends around £250 million a year procuring goods and services. Bank staff are required to consult the central procurement team when making purchases of more than £25,000. The procurement team and the Bank's Internal Audit identified that up to 200 purchases between December 2016 and December 2017 above £25,000 had been made without consulting procurement. We could find no evidence to suggest that staff were required to explain why they had not complied with the policy. Further investigation by the Bank, prompted by our examination, concluded that £10 million of purchases were made without consulting the procurement team. The Bank estimated that better value might have been achieved for £2 million worth of purchases and that this could have saved it £200,000. In addition to its work to establish commercial boards, the Bank was able to show us it had reviewed in 2017-18 the value for money of procurement in one of the key business areas affected by non-compliance. The Bank is making improvements to its procurement operation and the associated policy guidance. It informed us it intends to take follow-up actions with individuals where there is future evidence of poor policy compliance.

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

Alongside its One Bank strategy the Bank committed £6.2 million to create more flexible office space. This investment has provided flexible workspace, replacing 1,000 desks and adding 260 more in the Bank's headquarters. It did not target financial savings. The Bank's data in 2015-16 suggested that there were 800 allocated but unoccupied desks at its Threadneedle Street building on any particular day. The Bank provides enough desks should all staff and desk-based contractors be in the building at the same time. These are unoccupied in circumstances where staff are not present, such as on annual leave, working flexibly, or carrying out work at regulated firms. The Bank keeps 44 unallocated desks for unexpected projects. The Bank does not require desk sharing in Threadneedle Street and directorates each determine their own policies. Central Services are early adopters of desk sharing. In September 2018 four directorates, including HR, property and technology, had a desk to staff ratio of 0.7 as a result of desk sharing. Almost all other directorates had at least one desk per person. Reasons provided include cultural readiness, a lack of flexible telephony and the capacity of the wider infrastructure in the Bank's headquarters to cope with more people. 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. Looking further forward, 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.

**2.17** The Central Services leadership team recognises that it faces the challenge of embedding cultural change in the time available. Staff will need some time to adapt and comply with changes to policies, working practices and locations. To achieve this it will be important to demonstrate the value Central Services offers to the wider business as well as enforcing compliance. We saw evidence of buy-in across the Bank. Senior staff interviewed by us in the Bank's divisions were supportive of Central Services plans to modernise and simplify systems and hoped that change would translate to savings in administrative costs recharged to the business.

## **The Bank is improving its systems for scrutinising and managing costs**

**2.18** The Bank is taking forward initiatives to improve its ability to scrutinise and manage costs:

- **More challenge around budget setting** – Until 2016-17, budgets within the Bank were usually rolled forward on an annual basis in line with the previous year's budget. In 2017-18 the new finance director introduced more challenge around the setting of budgets and each area of the Bank was required to identify cost savings, amounting to £20 million overall.
- **More active management of spending pressures** – The Finance team has also introduced a monthly three-year rolling forecast to help the Bank manage spending pressures. As this process matures, the Bank expects to reallocate resources during the financial year as required.
- **Greater focus on the prioritisation of spending demands** – The Bank has created a director of prioritisation to lead discussions about spending priorities (and resource allocation), including those required when unexpected work arises.
- **Establishment of a cost containment group** – a cost containment group of senior staff was formed in March 2018 to help drive improvement and cost consciousness through the organisation. The Bank informed us that it is seeking more realism and discipline around headcount forecasts and recruitment decisions. It is starting to consider potential savings against non-staff costs alongside new commercial boards set up by the procurement team (see paragraph 2.4).

**2.19** The Bank will need to make further improvements to how it produces and uses information on costs and performance. Across the Bank information on costs and information on performance are generally reported separately to senior staff. Because cost and performance information are not brought together in most parts of the Bank there is less visibility of cost effectiveness. The Bank uses a large number of key performance indicators to monitor the performance of its central services. We found that few measures related to cost, inputs or cost-effectiveness (**Figure 10**). The Bank will need better information if it is to understand the relationship between cost, activity and performance.

**2.20** The Bank has not routinely and systematically benchmarked the costs of its Central Services, although each area we reviewed had carried out some form of benchmarking. The property area, for example, carried out benchmarking by looking at maintenance spending, salary costs, the potential to contract out activity and procurement costs. The HR team has used benchmarking more regularly. For example, it has used public sector and industry benchmarks when determining salary scales. In 2017-18 the Bank participated in an independent study comparing its staffing levels for central services and its component parts to those of a range of other central banks (Figure 8). The Bank plans to make greater use of public sector benchmarks to help improve measurement of cost-efficiency.



**Figure 10**

## Analysis of the Bank of England's Central Services performance information

**Central Services has few measures of cost-effectiveness**

Indicators	Number of indicators	Costs (%)	Inputs (%)	Outputs (%)	Outcomes (%)
<b>All indicators</b>	<b>84</b>	<b>8</b>	<b>8</b>	<b>46</b>	<b>37</b>
Human resources	24	4	8	54	33
Technology	34	18	6	44	32
PPSD	26	0	12	42	46

**Notes**

- 1 Definitions of inputs, outputs and outcomes are based on the National Audit Office's framework for performance information.
- 2 PPSD – Procurement, Property and Security Division.

Source: National Audit Office analysis of Bank of England management information

**The Bank has set a cap on spending**

**2.21** The Bank has introduced plans for containing its spending. In 2017-18 it set a cap on its total headcount of 4,281 full-time equivalents. From 2018-19 onwards, the Bank has committed to containing its 'controllable costs' at £476 million in the medium term.<sup>4</sup> The figure is based on holding total spending at 2017-18 levels. The Bank has committed to hold the costs of monetary policy and financial stability functions at an average of £169 million a year for five years from 2018-19. It has not committed to a firm timeframe for its other activities.

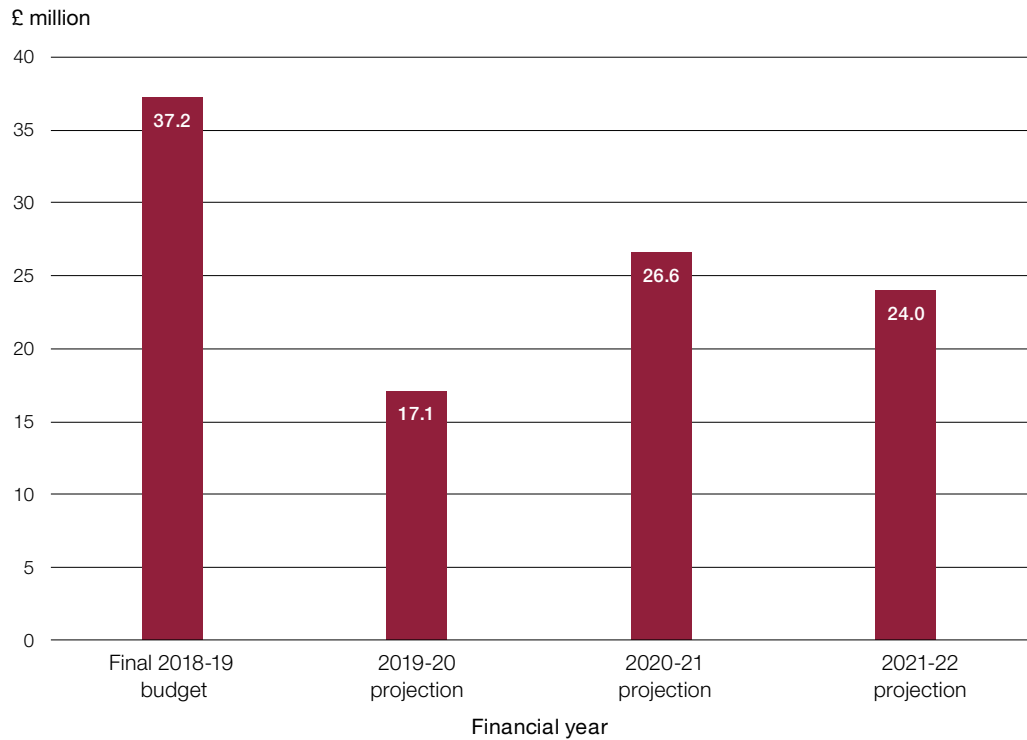
**2.22** To stay within its self-imposed spending cap, the Bank needs to find savings to compensate for cost pressures from inflation and new areas of work, such as preparing for the UK's exit from the EU. The Bank has identified additional costs it must off-set each year to live within the cap (**Figure 11** overleaf). Some cost pressures will occur in a single year while others will span several years, for example change projects or work associated with the UK's exit from the EU. Other cost pressures will build each year. The Bank forecasts that cost pressures in each year will add between £17 million and £27 million to running costs on top of the £37.2 million cost pressures identified for 2018-19.

<sup>4</sup> Total operational spending excluding the costs of producing banknotes and staff pension costs.

**Figure 11**

## Cost pressures the Bank of England must manage

The Bank identified £37 million of savings in its 2018-19 budget to address cost pressures and must find additional savings in future years

**Notes**

- 1 Figures are based on February 2018 Bank forecasts of known cost pressures.
- 2 In 2021-22 the Bank expects a reduction in cost pressures from work to exit the European Union.

Source: National Audit Office analysis of Bank of England information

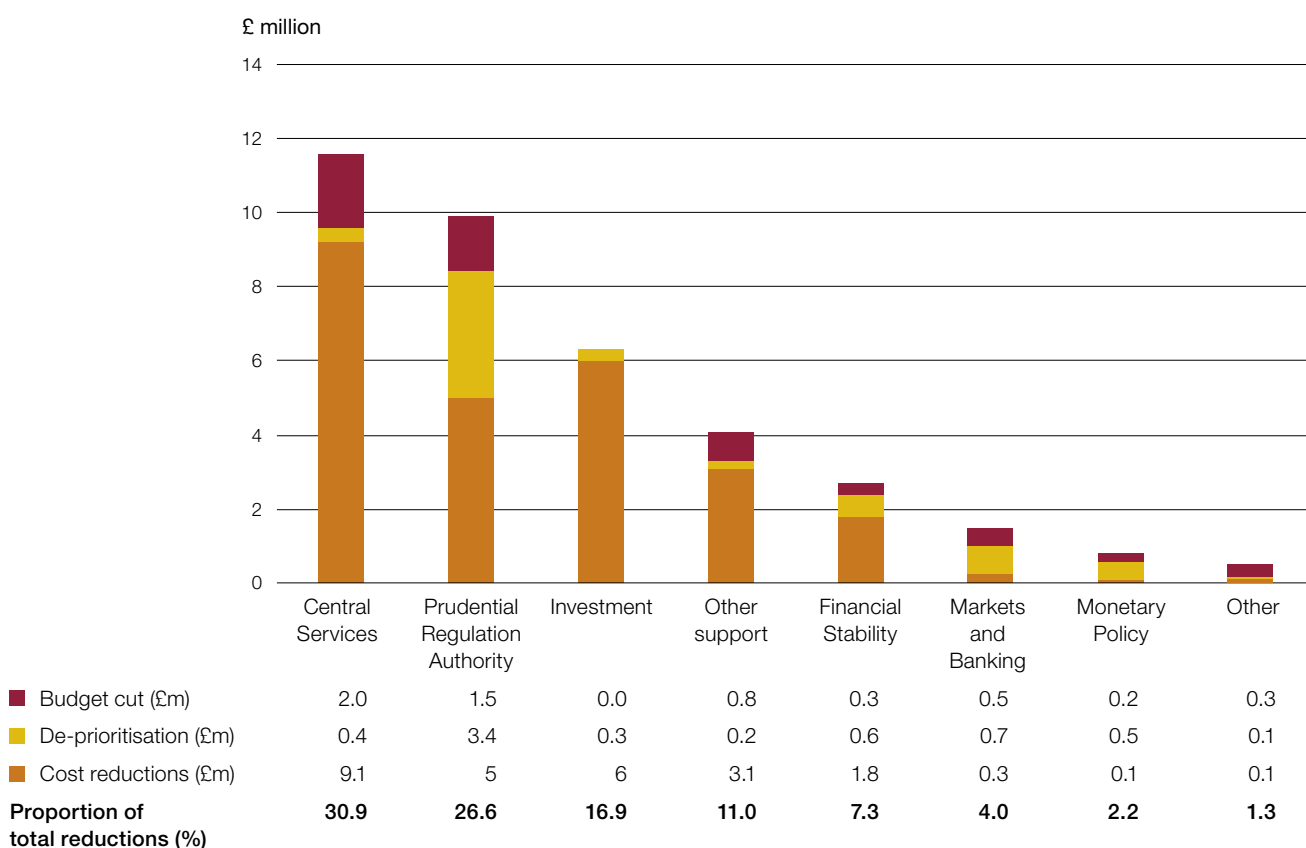
**2.23** In February 2018 the Bank identified how it would meet cost pressures in the coming year. Central Services needed to bear the largest share of savings of the Bank's divisions (**Figure 12**). It expected to make £11.5 million of cost reductions through efficiency savings, small budget cuts and de-prioritising work. Examples of Central Services savings budgeted for 2018-19 included:

- rationalising software licences and decommissioning systems – £3 million;
- legal fees – £900,000;
- other technology efficiencies – £800,000;
- travel cost reductions – £200,000; and
- recruitment agency fees – £200,000.

**Figure 12**

Cost reductions included in the Bank of England's 2018-19 budget by area

Central Services committed to cost reductions of £11.5 million in the 2018-19 financial year, more than any other area



1 'Other' includes Research and Statistics, Notes Production and Internal Audit.

Source: National Audit Office analysis of Bank of England information

**2.24** Not all cost reductions achieved in 2018-19 will be sustainable or genuine efficiencies. Of £37.2 million of cost reductions for 2018-19, the Bank hopes to achieve reductions from a combination of savings (£25.4 million), de-prioritisation of existing work (£6.2 million) and area-led cost reductions to be identified in the course of the year (£5.6 million). The Bank predicts that at least £7.1 million are one-off savings in 2018-19. The figure means that the Bank will have to make total savings in 2019-20 of £24.2 million. The gap may be higher because some de-prioritisation of work will be temporary, because a project is put on hold, rather than cancelled. The earlier the Bank can make sustainable cost reductions the better the chance of containing cost pressures in the longer term.

## **Delivering sustainable savings will depend on progress with the Central Services transformation programme**

**2.25** The forecast financial pressures will quickly put pressure on the Bank to deliver sustainable savings. The Bank will need to have a clear view of what its Central Services should cost if it is to target its savings effectively and not degrade the performance it needs from its Central Services.

**2.26** Our benchmarking work indicated that Central Services has the potential to deliver sustainable cost reductions (see paragraph 2.12 to 2.15). There may be potential to move more quickly in some areas to achieve savings and create space for long-term investment, for example, by making better use of its office space in London (see paragraph 2.16).

**2.27** The Bank will need to balance quick wins with medium- and long-term investment decisions. At the time of our audit we categorised the Bank's known savings plans against the criteria we have developed on our wider cost reduction work across government. **Figure 13** shows that the Bank had plans for cost reduction across most categories in our framework, with more initiatives aimed at long-term, sustainable change.

**2.28** At the time of our review the Bank did not have a comprehensive overview of the total savings expected from its initiatives or whether these were sustainable. The Bank estimates that the overall impact of its five Central Services projects could be a sustainable reduction in its operating costs by £9 million in 2020-21 and £15 million a year from 2021-22.<sup>5</sup> The numbers are early estimates and do not include possible savings from redesigning the Central Services operations. The Bank intends to undertake a full cost assessment of the impact of the changes in developing the final business case for transformation. In December 2018 the Bank began work to assess what Central Services could cost after transformation.

**2.29** The Bank will incur considerable costs to bring through its Central Services projects before they break even. The Bank will need to consider the overall affordability of its projects and the extent to which they deliver the benefits needed to live within cost constraints. It will need to allow for optimism bias in both the timescale for delivery and cost of the projects. For example, government business cases can underestimate the costs of outsourcing IT projects by up to 41%.<sup>6</sup>

**2.30** Without having a clear strategic assessment of all initiatives the Bank risks making sub-optimal decisions on where to make savings and on how much work to de-prioritise in response to emergent financial pressures. Central Services may need to consider a range of different options, including other projects, if it is to sustain the total cost reductions needed.

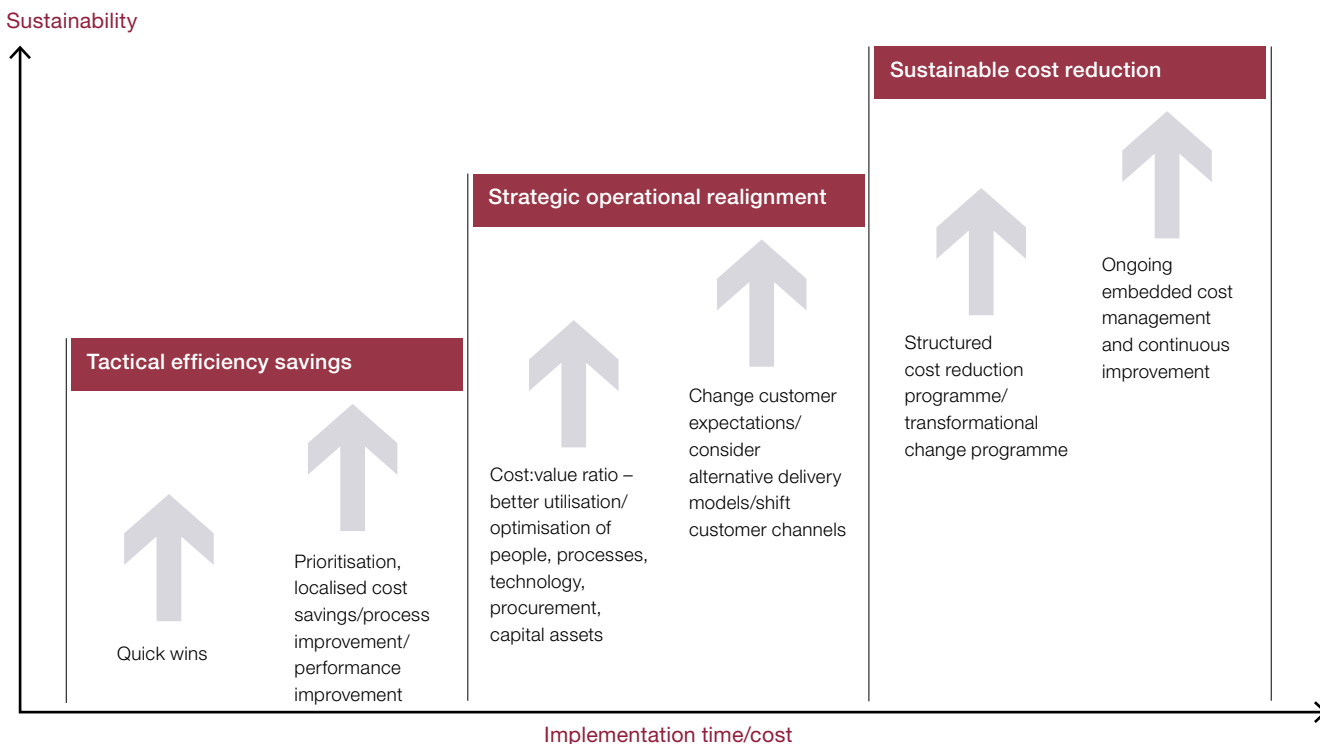
<sup>5</sup> Includes costs of depreciation, equivalent to £1 million a year from 2021-22.

<sup>6</sup> HM Treasury, *Green Book supplementary guidance: optimism bias*, April 2013. Available at: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/191507/Optimism\\_bias.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/191507/Optimism_bias.pdf)

**Figure 13**

Analysis of Central Services plans against the National Audit Office's structured cost reduction framework

The Bank has initiatives across most categories and more aimed at sustainable change



**How the Bank of England's Central Services initiatives align to this framework**

<p><b>Quick wins</b></p> <ul style="list-style-type: none"> <li>● Technology efficiencies.</li> <li>● Energy consumption efficiencies.</li> <li>● Cost-effective training offering.</li> </ul> <p><b>Prioritisation and improvement</b></p> <ul style="list-style-type: none"> <li>● Bank-wide prioritisation exercise.</li> <li>● Removal of Human Resources (HR) business partners enabling direct business engagement with HR experts.</li> </ul>	<p><b>Utilisation and optimisation</b></p> <ul style="list-style-type: none"> <li>● Improving workspace utilisation and facilitating agile working.</li> <li>● Rationalising licensing and decommissioning systems.</li> <li>● Process automation (eg testing).</li> <li>● Layered competencies (invest in core expertise, leverage suppliers for commodity services).</li> </ul> <p><b>Customer expectations and alternative models</b></p> <ul style="list-style-type: none"> <li>● Moving to self-service models in Central Services.</li> <li>● Change of HR service offering and realigned HR structure.</li> </ul>	<p><b>Transformational change programme</b></p> <ul style="list-style-type: none"> <li>● One Bank Service Transformation:             <ul style="list-style-type: none"> <li>● New target operating model.</li> <li>● Removal of manual workarounds or duplication of accountability.</li> <li>● Improved reporting of outcomes.</li> </ul> </li> <li>● Data Centre Migration:             <ul style="list-style-type: none"> <li>● Redesigning for efficiency.</li> <li>● Modernising to automate technology.</li> <li>● Simplifying to reduce costs.</li> </ul> </li> </ul> <p><b>Embedded cost management and continuous improvement</b></p> <ul style="list-style-type: none"> <li>● Modernising Procurement:             <ul style="list-style-type: none"> <li>● Enhanced procurement team capabilities and skills.</li> <li>● Strengthening procurement policy framework.</li> <li>● Increased focus on value for money.</li> </ul> </li> <li>● Cost Containment group and monthly forecasting.</li> </ul>
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Source: National Audit Office analysis of Bank of England information

# Appendix One

## Our audit approach

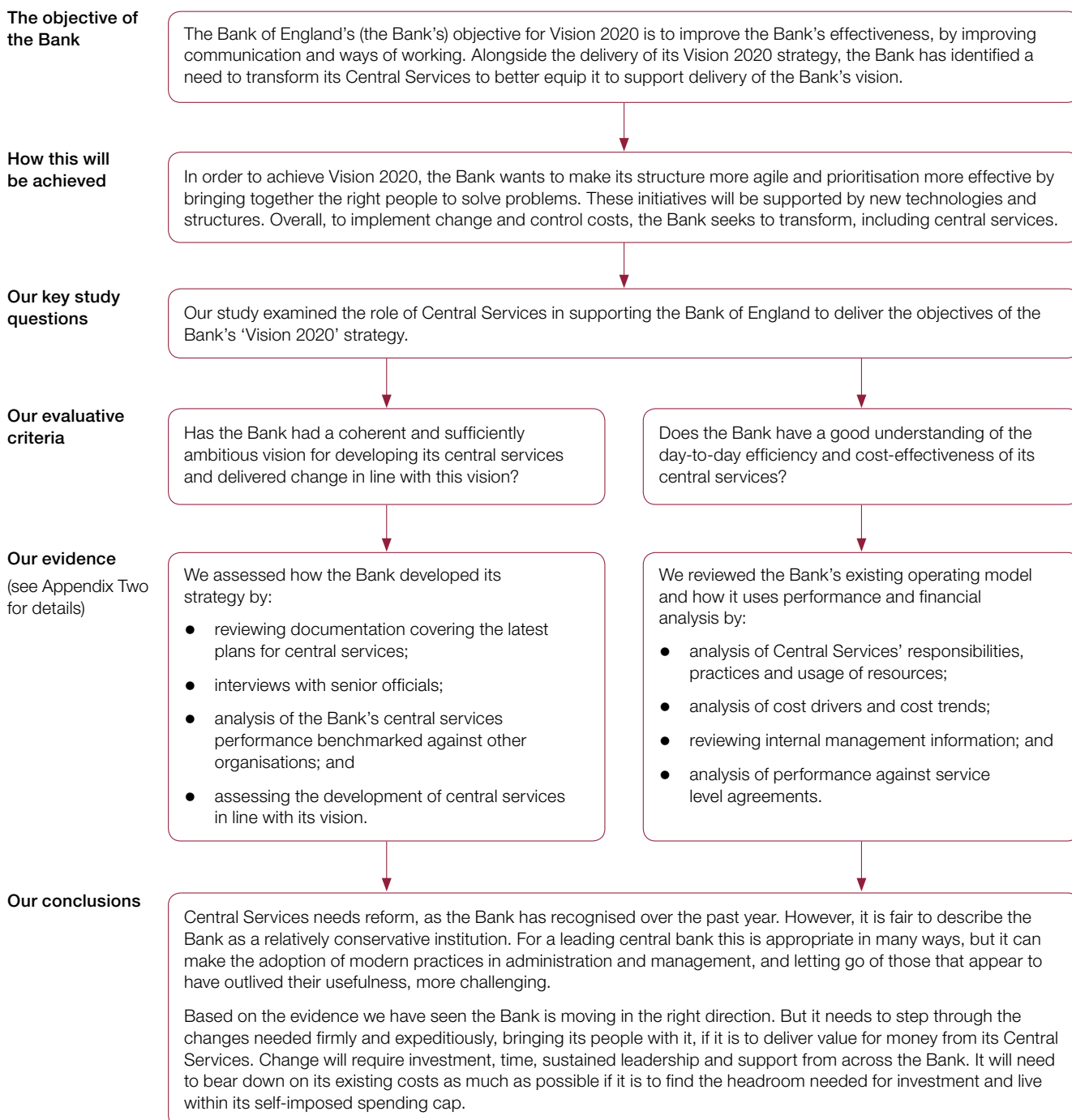
**1** This study examined the role of Central Services in supporting the Bank of England's (the Bank) Vision 2020. This is the new three-year strategy launched in May 2017, which builds on the 2014 'One Bank' strategy. We assessed the role of Central Services (Part One) and the Bank's approach to improving its Central Services (Part Two). Our key questions were:

- has the Bank had a coherent and sufficiently ambitious vision for developing its Central Services and delivered change in line with this vision; and
- does the Bank have a good understanding of the day-to-day efficiency and cost-effectiveness of its Central Services?

**2** Our audit approach is summarised in **Figure 14**. Our evidence base is described in Appendix Two.

**Figure 14**

**Our audit approach**



# Appendix Two

## Our evidence base

- 1 Our independent conclusions on the role of Central Services in supporting the Bank of England (the Bank) to deliver the objectives of the Bank's 'Vision 2020' strategy were reached following our analysis of evidence collected between June 2018 and September 2018.
- 2 We assessed whether Central Services had a robust plan for delivering its strategy, including a clear link to the desired strategic outcomes:
  - We reviewed a wide range of documentation covering the Central Services' responsibilities, practices and resources, particularly in the three deep-dive areas of Technology, HR and PPSD (Property, Procurement and Security Division). This included a consideration of each area's future strategy plans and the cost drivers for each area, and ultimately, Central Services.
  - We conducted semi-structured interviews with senior officials in Central Services to assess the strength of its vision for Central Services' future operation strategy.
- 3 We revisited and assessed whether Central Services had effective governance arrangements in place for overseeing the delivery of the strategy:
  - We reviewed the work the Bank has carried out to identify and address issues, or risks, and management's follow-up plans. This included the Bank's internal audit reports.
  - We interviewed key officials at the Bank to discuss how the strategy for each area has been implemented and the key challenges they face in delivering and achieving the strategy's objectives.
- 4 We assessed whether Central Services had delivered cost efficiency and thereby supported the Bank in achieving its cost containment objective:
  - We analysed the management reports and financial information on Central Services to assess the Bank's strength in tracking its own performance and costs in each area of Central Services.
  - We reviewed the Bank's internal management information to compare its cost management performance to the general public sector. This includes the analysis of cost trends, and benchmarking its costs in all three deep-dive areas of Central Services to the public sector.



- 5** We carried out cost and performance benchmarking using data collected by the Chartered Institute of Public Finance and Accountancy (CIPFA). These data were collected as part of CIPFA's 'Corporate Services Benchmarking Clubs' from more than 80 public sector bodies, covering central and local government, and the police, fire and health sectors, on the cost and efficiency of key back-office functions, including HR, Property and Technology.
- 6** Although not a comprehensive database of all public sector organisations, the CIPFA data provide a good indication of typical cost and performance across the public sector. CIPFA collects the data on a voluntary and confidential basis so we could not make comparisons using other characteristics.
- 7** Appendix Three presents the results for all benchmarks. As well as presenting the median benchmark for all of the organisations in CIPFA's data sets we also present a comparison with central government bodies. The organisations in the central government group are bodies that regulate certain government functions including public health, public protection, highways and transport, and regulators of the finance sector.
- 8** We have used the median rather than the mean (average) because the benchmark populations are not normally distributed. With a skewed data set the average could give a misleading impression of the typical levels of performance. Therefore, we have used the median, which is less affected by skewed data and approximates more closely to what is 'normal' for comparator organisations.
- 9** Inevitably all organisations are different and interpretation is required to consider whether differences from benchmarks are due to cost and efficiency, or due to unique and unalterable characteristics of the benchmarked organisation.
- 10** We worked closely with the Bank to ensure the classifications were as close to CIPFA definitions as possible. We excluded any costs that did not meet the precise definition used by CIPFA. We reviewed the descriptions of the cost centres in each area of HR, property and technology. Where cost centres spanned comparable and non-comparable activities we agreed a method of apportionment with the Bank. Details of the adjustments we have made are included in the notes to the benchmarking data presented in Figure 9 and Appendix Three.
- 11** We have not audited the Bank's classification of usable space or office space. The Bank's definition of net internal area for the purposes of office accommodation per FTE and per workstation is narrower than the definition used in the CIPFA data. The narrower definition applies to its Threadneedle Street headquarters and not its Moorgate office, which is also included in the Bank's figures. The net internal areas of the organisations in the CIPFA data typically represent between 70% and 90% of their gross internal area (with an average of 82% for all bodies and 91% for central government bodies), whereas the Bank's definition is 37% of its gross internal area. The Bank has a significant amount of unusual property associated with its statutory duties and heritage, including storage of assets, printing works, and a museum. In addition, it has been in the process of moving its regional network from leased to serviced accommodation. For these reasons we only compare the costs and space of the Bank's London offices to the CIPFA benchmarks.

**12** We made an adjustment for the Bank's measure for the cost of technology as a proportion of total running costs. We excluded the £42 million cost of supporting UK banking infrastructure/payments systems. Although these costs fall within CIPFA's definition, we took the view that the cost was so significant it could distort the reader's interpretation of the Bank's performance. It is possible some other organisations within the comparator group may also have very large technology costs associated with their activities. We do not have the data to make a like-for-like adjustment for this.

# Appendix Three

## Full benchmarking figures

**Figure 15**

Comparison of Central Services spending with public sector bodies

The cost of the Bank of England's Central Services is high compared with public sector bodies

Measure	Bank of England	Public sector benchmark	Gap	Central government benchmark	Gap
<b>Human Resources (HR)</b>					
HR cost as a percentage of organisational running costs	1.77%	1.52%	16.2%	1.80%	1.9%
HR cost per full-time equivalent (FTE)	£2,239	£1,260	77.7%	£1,946	15.1%
Number of employees per HR staff member	45.4	50.1	9.3%	49.8	8.9%
Cost of recruitment per post filled	£3,191	£798	300%	£1,892	68.7%
Number of leavers as a percentage of the average total workforce	7.4%	7.5%	0.7%	7.6%	2.1%
<b>Property</b>					
Total property costs per net internal area (NIA) (square metres)	£338	£241	40.3%	£434	22.0%
Total building operation costs (revenue) per square metre NIA	£232	£124	86.6%	£172	35.1%
Total property occupancy/ownership costs/ revenue per square metre NIA	£98	£109	9.8%	£208	52.7%
Cost of the estates management function per square metre (NIA)	£8	£54	85.6%	£34	77.4%
Cost of estate management as a percentage of organisational running costs	0.12%	0.35%	66.0%	0.34%	65.2%
Total office accommodation (square metres) per employee	9.0	13.6	33.9%	14.3	37.2%
Office accommodation (NIA square metres) per workstation	8.6	12.5	30.8%	12.3	29.9%
Number of work stations per FTE	1.04	0.81	29.3%	1.09	4.6%

**Figure 15** *continued*

## Comparison of Central Services spending with public sector bodies

Measure	Bank of England	Public sector benchmark	Gap	Central government benchmark	Gap
<b>Technology (ICT)</b>					
Cost of ICT as a percentage of running costs	8.4%	3.4%	146.5%	6.3%	33.6%
Cost of providing support per end user	£1,643	£451	264.3%	£1,392	18.0%
Acquisition cost per laptop	£733	£732	0.1%	£858	14.6%
Percentage of incidents resolved within agreed service levels	93.7%	93.1%	0.6%	95.4%	1.7%
Number of incidents per user	8.40	6.60	27.3%	8.83	4.8%
Unavailability of ICT services to users	0.01%	0.10%	89.6%	0.37%	97.3%

**Notes**

- 1 Benchmarks are medians using 2016-17 benchmark data and definitions from the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 2 The "gap" is presented in relative terms (the percentage difference of the Bank's performance from the relevant benchmark).
- 3 Around a third of HR costs fall outside the CIPFA definition including £1.4 million for administering the Bank's pension scheme, £0.5 million for payroll, external secondments (£1.9 million), full-time study costs (£0.5 million), payments to charities (£0.3 million), and dental costs (£0.3 million).
- 4 Property costs relate to Threadneedle St. and Moorgate premises. We exclude agencies and unusual property such as the printing works. Most of the Bank's property costs relate to building operation costs because Threadneedle Street is a freehold property.
- 5 Net internal area (NIA) is a commonly used metric to quantify the usable area within a building. It includes areas such as office space, entrance lobbies and communal kitchen space but excludes areas such as toilets, stairwells and plant rooms.
- 6 Information Communication Technology (ICT) cost excludes the £42 million cost of supporting UK banking infrastructure and £14 million for data.
- 7 The Bank's figure for acquisition cost per laptop is for 2017-18.

Source: National Audit Office analysis of Bank of England and Chartered Institute of Public Finance and Accountancy data

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