

# The Bank of England's Independent Evaluation Office

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- In September 2014, the Bank of England established an Independent Evaluation Office (IEO) — a core initiative of the 'Open and Accountable' pillar of its Strategic Plan.
- The IEO reports directly to the Chairman of the Court of Directors (the Bank's unitary Board) and operates at arm's length from local business areas of the Bank.
- The IEO has delivered three in-depth projects since its inception, with two further evaluations in progress.

## Overview

The creation of the Independent Evaluation Office (IEO) in September 2014 was an important initiative of the Bank's 2014 Strategic Plan, and part of the Bank's broader commitment to enhance its openness and accountability.

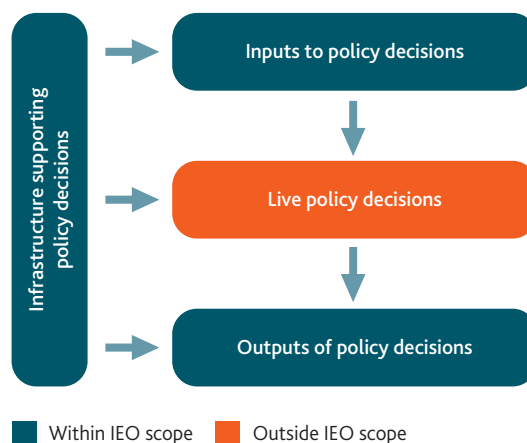
The IEO's design — an independent unit embedded within the Bank — aims to strengthen the Bank's accountability and its learning environment in a way that does not compromise either the independence of policy formulation or the effectiveness of Court as a unitary Board.

The IEO's remit to evaluate the Bank's performance is aligned with Court's statutory obligations to keep the performance of the Bank under review. The IEO reports directly to the Chairman of Court, helping to safeguard the independence and impartiality of its work. The Chairman of Court, typically in consultation with other Court Directors, is responsible for setting the IEO's remit and work programme.

The IEO has delivered three in-depth projects since its inception. It has evaluated the Prudential Regulation Authority's (PRA's) approach to its secondary competition objective, the performance of the Bank's forecasts and provided support for the Warsh Review of Monetary Policy Committee transparency. Two further in-depth evaluations are in progress — the Bank's approach to the supervision of financial market infrastructures and the PRA's objective to protect insurance policyholders.

The IEO's work focuses primarily on the quality of the inputs to, the infrastructure supporting and the outputs of policy areas. A founding principle of the IEO is that live policy is out of scope, although the IEO may conduct retrospective reviews of decisions taken by policy committees.

Summary figure The scope of the IEO



While the Bank of England appears to be the only central bank to date to have established a designated evaluation function, an increasing number of central banks have undertaken and published reviews, reflecting a broader trend towards greater transparency and accountability.

(1) The authors would like to thank Amber Evans, Kath Lewis and Rachel Savage for their help in producing this article.

## Introduction

This article provides an overview of the Bank of England's Independent Evaluation Office (IEO), established in September 2014 as part of the Bank's Strategic Plan. It begins by discussing the broader context surrounding the IEO's establishment, including the Bank's commitment to ensure that its expanded responsibilities are accompanied by a robust governance and accountability framework. The article then outlines the nature of the IEO's work and the process by which its work programme is agreed. The IEO's emerging evaluation approach is examined, with reference to established principles of evaluation used in other policy fields. The final section concludes.

### Central bank governance and accountability

Central banks have wide-ranging powers over the economy and financial system, and, in many cases — including at the Bank of England — have independence when formulating policy in pursuit of the objectives set for them by the country's legislators. That independence enables policy to be formulated in the longer-term interests of the public. But it is crucial that policy independence goes hand in hand with transparency and accountability. As Carney (2014) sets out: 'Transparency and openness are not just central to our legitimacy [...]. They are also central to our effectiveness'.

The need for robust accountability and governance frameworks is common to all central banks, but is particularly marked for institutions, such as the Bank of England, that have wide-ranging powers and responsibilities. In the United Kingdom, financial regulation has been reshaped in recent years, with the Bank given responsibility for formulating macroprudential and microprudential policy in pursuit of its statutory objectives,<sup>(1)</sup> alongside its existing responsibilities for formulating monetary policy.

In concert with these expanded responsibilities, there has been a material strengthening of the Bank's governance framework, with the Court of Directors (the institution's Board) reshaped in line with best practice in UK private sector corporate governance, adapted as appropriate to the Bank's statutory setting. Court has been reduced in size<sup>(2)</sup> and acts as a unitary Board (Executive and Non-executive Directors together) comprising a majority of Non-executives, including a Non-executive Chairman.<sup>(3)</sup> Court minutes are published, typically with a six-week lag, and Court Directors (including Non-executive Directors) are accountable to Parliament, and give evidence to Parliamentary Committees.

The overarching aim of these governance changes has been to provide a robust framework for keeping under review the effective discharge of the Bank's responsibilities, and to hold the Bank to a high level of public accountability consistent with the independence that Parliament has mandated.

The trend towards increased openness and accountability is not unique to the United Kingdom, and reflects not only the prevalence of independence of policymaking among central banks, but also broader factors such as the deepening and broadening of world capital markets, and the repercussions of the financial crisis (see, for example, Warsh (2014)). One manifestation of this trend has been the increase in evaluation and review activities in the central banking community, as illustrated by the box on page 77.

### The formation of the IEO

The creation of the IEO in 2014 was part of the Bank's broader drive to reinforce its openness and accountability, and was an important initiative within the 'Open and Accountable' pillar of the Bank's Strategic Plan (Carney (2014)). The IEO supports Court in discharging its statutory obligation to keep the performance of the Bank under review. The IEO conducts regular evaluations of performance and has a dual objective to enhance public trust in the Bank and to strengthen the institution's culture of learning.

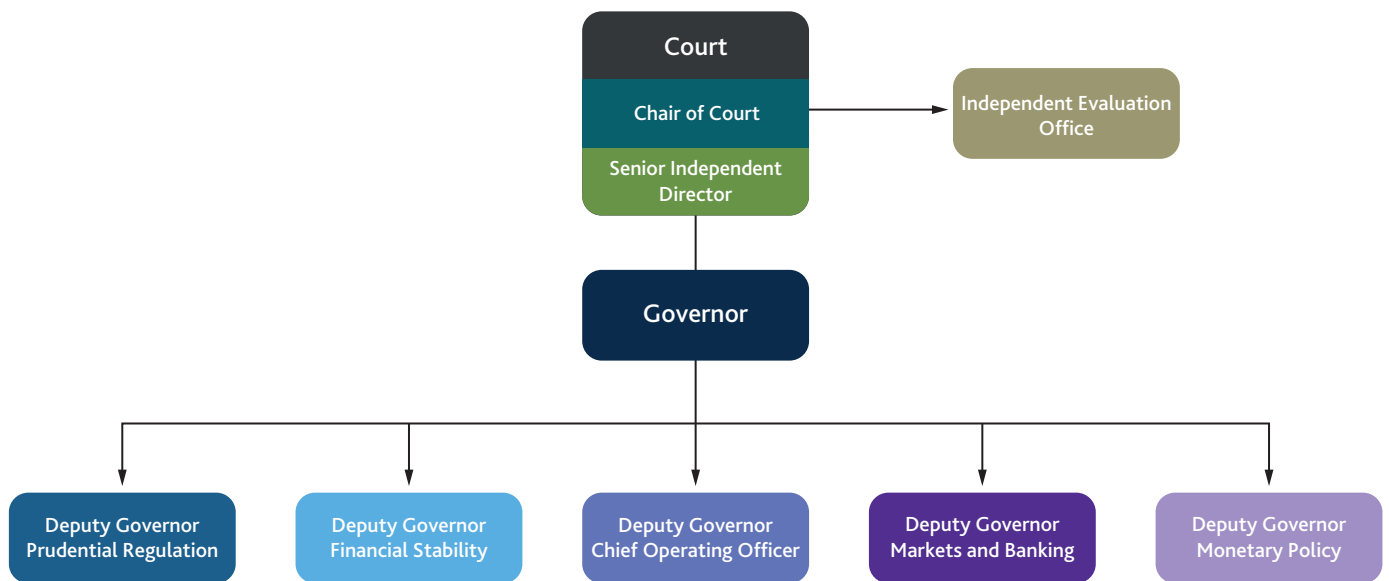
The core consideration in the design of the IEO has been to strengthen both the accountability of the Bank and the Bank's culture of learning, but in a way that does not compromise either the independence of policy formulation or the effectiveness of Court as a unitary Board.

Establishing the IEO as an independent unit embedded within the Bank, and taking live policy outside the scope of its remit (see below), has helped to ensure that the IEO does not inadvertently compromise the independence of the Bank's policy committees. Locating the IEO within the Bank ensures that it contributes to the Bank's learning environment. And ensuring that the IEO's remit to evaluate the Bank's performance is aligned with Court's statutory duties to keep the performance of the institution under review has helped the IEO to reinforce the effectiveness of Court as a unitary Board.

The decision to locate the IEO within the Bank means that it has been important to introduce safeguards to protect the independence and impartiality of the IEO's work. The Bank has sought to do this in a number of ways, including by:

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- (1) The Financial Services Act (2012), which came into force in 2013, conferred statutory powers upon the Financial Policy Committee (FPC) (for macroprudential regulation) and the Prudential Regulation Authority (PRA) (for the microprudential regulation of deposit-takers, insurers and major investment firms). The Bank of England and Financial Services Act 2016 brought the PRA into the Bank, with statutory responsibilities for microprudential regulation conferred on the Prudential Regulation Committee (PRC) — a new committee of the Bank on the same statutory footing as the MPC and FPC.
  - (2) From 19 Directors pre-crisis to 12 Directors in 2016.
  - (3) The Executive Court Directors are: the Governor; the Deputy Governor for Monetary Policy; the Deputy Governor for Financial Stability; the Deputy Governor for Prudential Regulation; and (once the 2016 Bank of England and Financial Services Act comes into force) the Deputy Governor for Markets and Banking. There are currently seven Non-executive Directors, including the Chairman. The Bank's Chief Operating Officer also attends all Court meetings.

Figure 1 The IEO within the Bank's organisational structure



- placing the IEO outside of the Bank's usual reporting lines. The IEO operates at arm's length from the business areas and reports directly to the (Non-executive) Chairman of Court, to whom it is accountable (Figure 1);
- ensuring that the IEO has the ability and the resources to call on third-party expertise as it sees appropriate; and
- committing to transparency about the IEO's work. As set out in the IEO's terms of reference,<sup>(1)</sup> the presumption is that IEO reports will be published alongside a management response, unless there are public interest grounds for withholding.

### The work of the IEO

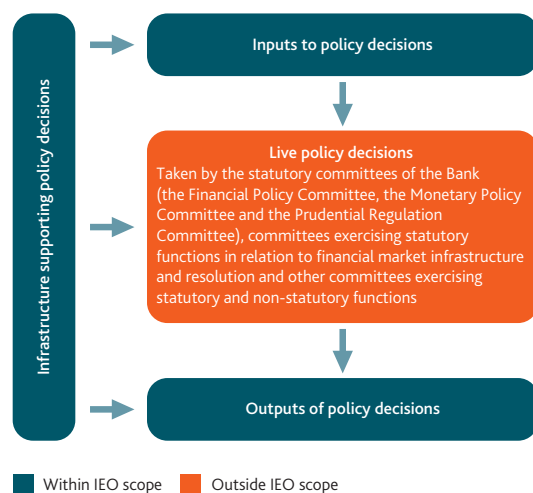
In line with Court's responsibilities, the IEO works across all of the policy areas that support the Bank in promoting its policy objectives for monetary and financial stability, including the objectives of the Prudential Regulation Authority (PRA), part of the Bank of England. The IEO's work focuses primarily on the quality of the inputs to, the infrastructure supporting and the outputs of policy areas (Figure 2).<sup>(2)</sup> A founding principle of the IEO is that live policy is out of scope, crucial to the aim of protecting the independence of policy formulation. Nevertheless, the IEO may conduct retrospective reviews of decisions taken by policy committees.

The work of the IEO falls into three broad categories:

(i) conducting in-depth evaluations; (ii) supporting external reviews; and (iii) improving regular reporting lines to Court:

- **Conducting in-depth evaluations:** the mainstay of the IEO's work is expected to be regular, in-depth performance evaluations, of which it aims to conduct around two per year. The IEO's evaluation of the Bank's forecasting

Figure 2 The scope of the IEO's remit



performance (the 'forecast evaluation', IEO (2015)) and of the PRA's approach to its secondary competition objective (the 'SCO evaluation', IEO (2016))<sup>(3)</sup> are both examples of this type of work.

- **Supporting external reviews:** in some cases, for example in response to an external event, or where major changes to the Bank's approach are envisaged, Court may decide to appoint an external individual to lead a review. Where appropriate, the IEO will support Court in identifying an

(1) See [www.bankofengland.co.uk/about/Documents/ieo/termsofreference.pdf](http://www.bankofengland.co.uk/about/Documents/ieo/termsofreference.pdf).

(2) Examples of relevant inputs into policy decisions include the Bank's forecasts, or the Bank's research agenda; examples of infrastructure supporting policy decisions include the Bank's Sterling Monetary Framework; examples of outputs include published communications from policy committees such as meeting minutes or consultation papers.

(3) The PRA has a secondary competition objective (set out in statute) that requires the PRA to act, where possible, in a way that facilitates effective competition when making policies to advance its primary objectives of safety and soundness and policyholder protection.

individual, external to the Bank, with sufficient stature and expertise to lead the work, and provide support to the external reviewer for the duration of their work. The support provided by the IEO to the review of Monetary Policy Committee (MPC) transparency by Governor Kevin Warsh, formerly of the Board of Governors of the US Federal Reserve system (the 'Warsh Review', Warsh (2014)), is an example of this type of work.

- **Improving regular reporting lines to Court:** in addition to in-depth performance evaluations, the IEO seeks to improve regular reporting lines between local business areas of the Bank and Court, with a view to assisting Court in fulfilling its duties to oversee the performance of the institution. As an example, the IEO has strengthened Court oversight of the Annual Report on the Sterling Monetary Framework.<sup>(1)</sup>

By design, the IEO focuses on evaluation of performance (rather than, say, of risk management or internal controls), has a remit that spans the full breadth of the Bank's activities and reports into the Chairman of Court. These distinctive characteristics of the IEO's framework mean that it complements the evaluation and assurance work undertaken elsewhere in the Bank. For example:

- **Internal Audit:** Internal Audit exists to help Court and Executive Management protect the Bank's assets and reputation by evaluating the effectiveness of governance, internal controls and risk management processes. It reports into the Audit and Risk Committee (ARCo), a sub-committee of Court. By contrast, the IEO evaluates the performance of the Bank, with a particular focus on performance of the policy areas. It makes recommendations to improve performance where appropriate, and reports to Court.
- **The PRA's Supervisory Oversight Function:** the Supervisory Oversight Function (SOF) provides independent assurance to the Prudential Regulation Committee (PRC)<sup>(2)</sup> and the PRA Executive on the quality and effectiveness of microprudential supervision. Like the IEO, it focuses on improving performance. But, by design, SOF concentrates on a narrower area of the Bank's work, and, unlike the IEO, it provides assurance about supervision at the individual firm level. The IEO, by contrast, focuses on the effectiveness of the Bank's overall approach to its policy responsibilities, as its remit is aligned with the broader statutory responsibilities of Court rather than those of individual policy committees.
- **The Bank-wide risk function and compliance function:** the Bank's risks are managed through an institution-wide framework that applies consistent risk management across the organisation, and ensures suitable mitigating actions

are taken. The Bank-wide compliance function provides assurance on staff compliance with the Bank's expectations and requirements on conduct and ethics. By design, these parts of the Bank's control framework do not evaluate performance, and their work is therefore complementary to that of the IEO. Governance arrangements also differ, with the Bank's risk and compliance functions reporting to both Executive Management and Court's Audit and Risk Committee.

The IEO also takes account of the current and proposed workplans of the National Audit Office (NAO). Under the Bank of England and Financial Services Act 2016 ('the Act'),<sup>(3)</sup> the NAO will be able to examine the economy, efficiency and effectiveness with which the Bank has used its resources in discharging its functions. The NAO is precluded by statute from carrying out examinations in certain areas, namely: the merits of the Bank's policy objectives; and the merits of policy decisions taken by the Bank's policy committees or bodies.<sup>(4)</sup> By contrast, retrospective assessments of decisions made by any of the Bank's policy committees or bodies are potentially within the IEO's evaluation mandate, and the mainstay of the IEO's work is evaluating the performance of the Bank's policy areas.

In accordance with the provisions of the Act, the Bank and the NAO have drafted a Memorandum of Understanding (MoU). The draft MoU was published during the legislative process. It recognises the importance of safeguarding both the Bank's independence in formulating policy and the effectiveness of Court as the Bank's unitary Board, as well as the need for the NAO to have discretion to determine which examinations should be carried out.

The MoU details a range of areas where the NAO would not usually consider it appropriate to carry out an examination. This includes the decisions of the MPC in relation to the Sterling Monetary Framework and of the FPC in relation to the provision of central bank money, as well as dealings with foreign central banks, governments and international agencies.<sup>(5)</sup> These areas are all potentially within the evaluation mandate of the IEO.

(1) Following the Winters Review (Winters (2012)), the Bank provides to Court, and publishes, an Annual Report on the Sterling Monetary Framework.

(2) Currently the PRA Board until the commencement of the provisions of the Bank of England and Financial Services Act 2016.

(3) See Sections 7D and 7E of the Bank of England Act (1998), and the draft Memorandum of Understanding between the National Audit Office and the Bank of England.

(4) The FPC, the MPC, the PRC, the Bank's committees/bodies exercising financial market infrastructure supervision responsibilities (so far as those decisions relate to that supervision) and the Bank's committees/bodies exercising resolution responsibilities (so far as those decisions relate to those functions). This is subject to a statutory exception provided for in Section 7D(6) that applies when the Bank has exercised relevant resolution functions in relation to a financial institution.

(5) As set out in the MoU, the NAO will also not usually consider it appropriate to carry out examinations into: individual supervisory decisions; individual resolution decisions not to exercise resolution functions in relation to a financial institution; banknote security features; and the risk appetites expressed in the Bank's Risk Tolerance Statements, as approved by Court.

The MoU additionally sets out that the NAO will take account of current and proposed workplans, reviews and reports of the IEO (and also of the Bank's Internal Audit function), with a view to avoiding unnecessary duplication.

## The IEO's work programme

The Chairman of Court, typically in consultation with other Court Directors, is responsible for setting the remit and work programme for the IEO. In principle, the IEO's remit — like Court's — spans the full breadth of the Bank's responsibilities. Mindful of the need to use its resources effectively, the IEO has worked with Court to develop a prioritisation framework, and is using this to identify potential topics for future in-depth evaluations.

The prioritisation framework seeks to highlight potential topics for in-depth evaluation that are most relevant to the effective discharge of Court's responsibilities to keep the performance of the Bank under review. Specifically, in-depth evaluations by the IEO will typically satisfy one or more of the below criteria:

- areas of the Bank's work that are concerned with the discharge of new or recently amended statutory responsibilities;
- areas of the Bank's work that cut across different parts of the institution's responsibilities; and
- areas of the Bank's work that potentially have a significant impact on the institution's reputation or balance sheet.

Additionally, the IEO aims to deliver, over time, a balanced mix of in-depth projects across the business areas, consistent with the responsibilities of Court to oversee the performance of the full range of Bank activities.

With this framework in mind, Court commissioned two in-depth IEO evaluations for 2016 — one of the Bank's approach to the supervision of financial market infrastructures (FMI) and one of the PRA's objective to contribute to the protection of insurance policyholders. **Table A** sets these ongoing projects within the context of previously published reviews by both the IEO and by Court/the Bank more broadly.

Court also used the prioritisation framework to identify potential candidates for in-depth IEO evaluations in 2017 and beyond. Provisionally, these include the Bank's responsibilities as Resolution Authority; the stress-testing programme; the effectiveness of the Funding for Lending Scheme (once the drawdown window closes); the Bank's operations under the Sterling Market Framework; Notes circulation policy; the outcomes of the Strategic Plan; and operational resilience.<sup>(1)</sup> Court intends to discuss and update this indicative workplan on a regular basis.

**Table A** Published and commissioned reviews, 2012–16

	Bank Deputy Governorship				
	Financial Stability	Prudential Regulation	Chief Operating Officer	Markets and Banking	Monetary Policy
2012				Sterling Monetary Framework (Bill Winters) Provision of Emergency Liquidity Assistance in 2008/9 (Ian Plenderleith)	MPC's Forecasting Capability (David Stockton)
2013			Record-keeping (Internal Audit)		
2014				Foreign Exchange (Lord Grabiner QC)	MPC Transparency (Governor Warsh, IEO support)
2015				Market Intelligence (Bank of England) RTGS Outage (Deloitte)	Forecast performance (IEO)
2016 (published)		PRA secondary competition objective (IEO)			
2016 (commissioned) <sup>(a)</sup>	Financial Market Infrastructure Supervision (IEO)	PRA insurance objective (IEO)			

(a) These evaluations were commissioned in 2016; see the minutes of the February 2016 and April 2016 Court meetings available at [www.bankofengland.co.uk/publications/minutes/Pages/court/default.aspx](http://www.bankofengland.co.uk/publications/minutes/Pages/court/default.aspx).

(1) As set out in the minutes of the December 2015 Court meeting, see [www.bankofengland.co.uk/publications/minutes/Pages/court/default.aspx](http://www.bankofengland.co.uk/publications/minutes/Pages/court/default.aspx).



## Evaluation and central banks: selected international experiences<sup>(1)</sup>

The past two decades have seen major shifts in central banking attitudes towards transparency and accountability, with the use of reviews and independent evaluation increasingly regarded as one way of both strengthening accountability and improving effectiveness. This box describes selected international experiences with evaluation and review.

Independent evaluation has been a long-standing feature of the broader public policy field, with a particularly rich heritage in the area of development assistance. In the United Kingdom, for example, the Department for International Development (DFID) has for many years put a strong emphasis on the importance of the evaluation of development assistance (see, for example, DFID (2015)).

Independent evaluation also features prominently in the work of international financial institutions (IFIs) such as the World Bank and the International Monetary Fund (IMF). For example, the IMF's Independent Evaluation Office (IEO) — probably the closest peer to the Bank of England's IEO — has published over 20 in-depth evaluations since its inception in 2001, covering the full breadth of the IMF's work. In common with many evaluation functions, including the Bank of England's, the IMF's IEO aims both to strengthen the accountability of the institution, and to enhance a culture of learning.

Within central banks, the role of independent evaluation and review has historically been more limited. There is a relatively strong culture of independent review and assurance within the field of microprudential supervision — as seen, among others, in the PRA's Supervisory Oversight Function as well as in many central banks in Europe, including the Dutch National Bank and the Supervisory Quality Assurance Division of Europe's Single Supervisory Mechanism. And most central banks also have well-developed and mature internal audit functions. But, until relatively recently, it was rare to see independent evaluation and performance reviews extended to the full breadth of central banking activities.

While there is no obvious equivalent within the central banking community to the Bank of England's IEO — an arm's-length permanent evaluation function that assesses performance across the full breadth of central banking activities — central banks globally are increasingly involved in evaluation and review activity.

For some central banks, there is a statutory requirement for independent reviews, while in other jurisdictions, lawmakers and/or the national government commission reviews of central banking activity, either as part of a regular process of oversight, or as a one-off response to events.

For example:

- in Ireland, the central bank is now required by legislation to commission periodic peer reviews of its regulatory functions, using international peer reviewers;
- in Sweden, lawmakers in the Riksdag (Swedish parliament) commission an external and independent review of Swedish monetary policy every four years, the most recent being the Goodfriend/King review of the Riksbank's monetary policy between 2010 and 2015 (Goodfriend and King (2016));
- in Norway, the Ministry of Finance part-sponsors the regular 'Norges Bank Watch' independent reviews of monetary policy; and
- since 2001, the Canadian government and the Bank of Canada (BoC) have reviewed the country's inflation-control target framework every five years. These reviews have considered the past performance of the BoC with respect to the inflation target, as well as considering and then agreeing upon possible changes to the inflation-control agreement itself.

There is also an increasing trend towards central banks initiating their own reviews of performance. Some of these are as a response to events, and particularly to the financial crisis. An emerging trend, however, is for central banks to commission, and to publish, so-called 'good order' reviews of their activities. 'Good order' reviews are not a response to an external event, but instead part of a broader drive to improve both accountability and performance (which, over time, could reduce the need to commission reactive, event-driven reviews).

Examples of these 'good order' reviews include the Norges Bank review of its *Monetary Policy Report* (Fridriksson (2010)) and of its financial stability work (Wettergren (2015)), and numerous Bank of Finland evaluations of research performance (Fleming, Miller and Widgrén (1999), Lane, Mester and Välimäki (2004), Kashyap, Pohjola and Wieland (2009), Puhakka, Repullo and Walsh (2015)). Indeed, research performance has been a particularly active area of central bank evaluations. In addition to the Bank of Finland, selected examples include the European Central Bank (Goodfriend, König and Repullo (2004) and Freedman *et al* (2011)) and the Bank of Canada (Meyer *et al* (2008)).

Another area that commonly features in central bank evaluations is that of forecasting. Relevant examples include: the Riksbank (Andersson and Palqvist (2013), Aranki and Reslow (2015), Iversen *et al* (2016)); the recent Pagan and Wilcox review into forecasting and modelling at the Reserve Bank of Australia (2016); and the two recent reviews of the Bank of England's forecasting capability and performance (Stockton (2012) and IEO (2015)).

(1) This box has benefited from discussions with a number of colleagues in the international community, including the Central Bank Studies unit at the Bank for International Settlements.

## The IEO's emerging evaluation approach

From its first three projects, a general approach to IEO evaluations is emerging. The characteristics of this approach are based on established principles of evaluation used by both the UK government and international institutions, including guidelines developed by: HM Treasury (2011); the International Monetary Fund (IMF) (see, for example, Lamdany and Edison (2012)); the OECD (1991); and the United Nations Evaluation Group (UNEG) (2005).

The common elements of the approach are outlined in **Figure 3** and set out in further detail below. The IEO is continuing to develop and refine its framework, and so intends to revisit its methodology regularly to ensure that it is aligned with best practice elsewhere in the evaluation field, adapted as appropriate to the Bank of England's statutory framework and policy objectives.

**Figure 3** The IEO's emerging approach



### Defining the evaluation's scope and purpose

Once an IEO evaluation has been commissioned by Court, the IEO's first step is to define the evaluation's scope and purpose. Court agreement for the scoping proposal is then sought.

In defining the evaluation's scope and purpose, the IEO seeks to identify the type of evaluation best suited to the question at hand. Broadly speaking, there are three classes of evaluation which relate to the underlying questions being addressed (see HM Treasury (2011)):

- (i) **a process evaluation:** how was the policy delivered?;
- (ii) **an impact evaluation:** what difference did the policy make?; and
- (iii) **an economic evaluation:** did the benefits of the policy justify the costs?

By way of example, the IEO's evaluation of the PRA's competition objective was a 'process' evaluation in that it sought to evaluate how an approach was being implemented and delivered, and whether the policy was leading to outputs of appropriately high quality.

### Agreeing project framework and governance

As well as agreeing the project's scope and purpose at the outset, the IEO has also sought to agree an appropriate project management framework at an early stage.

Best practice evaluation guidelines stress the need for internal transparency and communication in evaluations, both to assist with quality control and to increase the likelihood of an evaluation contributing to the wider learning culture in an organisation. As set out on page 10 of UNEG (2005): 'Transparency and consultation with the major stakeholders are essential features in all stages of the evaluation process. This improves the credibility and quality of the evaluation. It can facilitate consensus building and ownership of the findings, conclusions and recommendations'. However, it is crucial that the need for internal transparency and communication does not compromise the impartiality of the IEO's work.

HM Treasury (2011) suggests that the use of an advisory group is one way to achieve good communication and exchange of ideas with stakeholders. For both the forecast and SCO evaluations, a senior-level advisory group helped provide quality assurance and ensure that recommendations from the projects were likely to be effective. Both groups were constituted on a purely advisory basis — given the need to ensure the independence of the IEO's work — and were designed to bring in a wide and diverse range of views from across the Bank.

The IEO also has the option to draw on external expertise as needed, to assure both the quality of its work and its independence. In the forecast evaluation, for example, the IEO's empirical approach was peer reviewed by James Mitchell, Professor of Economic Modelling and Forecasting at Warwick Business School. And in the SCO evaluation, Paul Grout, senior advisor to the PRA on competition and Professor of Political Economy at the University of Bristol,<sup>(1)</sup> advised on the economic underpinnings of the workstreams.

### Establishing evaluation criteria

The next phase of the IEO's emerging approach involves establishing at an early stage the criteria against which a policy or approach will be evaluated. Establishing evaluation criteria *ex ante* is good practice in the broader evaluation field. When formulating evaluation criteria, the IEO has sought to draw on established principles from the evaluation literature, as well as the nature of the statutory requirements facing the Bank and the experience of policy practitioners.

(1) The PRA's Senior Advisors support the Parliamentary Commission on Banking Standards' recommendation that UK regulators should mobilise the experience of former senior management. Using their experience and expertise as senior figures in banking, insurance and competition, Senior Advisors at the PRA are asked to provide effective and independent challenge to the way the PRA works, operates and exercises judgement.

For example, in its SCO project, the IEO's evaluation criteria were partly informed by principles endorsed by the Development Assistance Committee (OECD (1991)) and the UN Evaluation Group (UNEG (2005)) — including the need for initiatives to be effective and have impact. The criteria were also informed by the legislative context, specifically the Government's stated intent, when introducing the statutory SCO, for the PRA to be proactive in seeking out ways to facilitate effective competition (IEO (2016)).

In its assessment of the Bank's forecast performance, the IEO drew on evaluation criteria that are well-established in the academic literature, namely the desirability of economic forecasts being accurate, unbiased and efficient. And in the Warsh Review, transparency options were evaluated against their impact on sound policy formulation, effective communication, accountability and the need to lay down an accurate historical record.

### Determining methodology and data sources

Once evaluation criteria have been determined, the IEO then decides on the evaluation methodology and the sources of data to be employed. As is commonly practised in the evaluation field, the IEO aims to combine a number of different approaches and techniques.

Combining insights in this way (an approach known as 'triangulation') recognises that any individual approach to a research question has its limitations and drawbacks; combining different approaches and looking for common themes or findings should improve the robustness of the results. For example, as set out in HM Treasury (2011): 'Triangulation of data, or the use of multiple research methods, which explore similar research questions, adds credibility to and confidence in the findings of an evaluation, and strengthens the conclusions and recommendations that can be made as a result'.

By way of example, the SCO evaluation used three different approaches: a desk-based framework review; a series of in-depth case studies; and linguistic analytical techniques. In the forecast evaluation, performance of the Bank's forecasts was assessed using standard econometric techniques of accuracy, inefficiency and bias, and was also benchmarked against forecasts produced by simple statistical models, by UK private sector forecasters and by other central banks (see also below).

### Benchmarking the Bank to peer organisations

Although policy objectives and powers, as well as the political, economic and social climates, vary widely across the central banking community, there are nonetheless obvious areas of commonality. When evaluating the Bank's performance it can therefore be instructive to consider how the Bank's approach compares to those of its peers.

In the Warsh Review, for example, MPC transparency was benchmarked against that of nine peer central banks, updating methodology developed in the academic literature and supplementing this with the Review's own survey. In the forecast evaluation, the accuracy of Bank forecasts was benchmarked against that of UK private sector forecasters as well as that of other central banks, using a range of techniques to adjust for differences between economies. In the SCO evaluation, there were no directly comparable peers against which to benchmark the PRA's approach, but the evaluation drew on established practice in the wider public policy community where applicable (eg within HM Treasury and the Competition and Markets Authority, the United Kingdom's primary competition and consumer authority).

### Management response

As set out in the IEO's terms of reference, the presumption is that IEO reports will be published alongside a management response. This was the case for the Warsh Review as well as the forecast and SCO evaluations. To date, the majority of recommendations made by the IEO have been, or are in the process of being, implemented by local management.

### Follow-up

Court is committed to monitoring the implementation of IEO proposals, in part through its regular oversight of the Bank's policy committees. The IEO is also in the process of establishing a follow-up framework to enable Court to track progress over time.

### Conclusion

The establishment of the IEO in September 2014 was part of the Bank's wider commitment to be open and accountable to the public that it serves. It supports Court (the Bank's unitary Board) in discharging its statutory responsibilities to keep the performance of the Bank under review. The IEO's design — an independent unit embedded within the Bank — is aimed at strengthening the Bank's accountability and its learning environment in a way that does not compromise either the independence of policy formulation or the effectiveness of Court as a unitary Board.

Since its inception, the IEO has delivered three in-depth assessments (the Warsh review of transparency, and the IEO-led evaluations of forecast performance and the PRA's competition objective), with two further projects in progress. The IEO's emerging framework and approach are based on established principles from elsewhere in the evaluation field, and the IEO intends to revisit its methodology regularly to ensure it is aligned with wider best practice.



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