

Management of the Reserve Bank

Much of the Reserve Bank's call on resources comes from activities associated with its key policy and operational responsibilities in financial markets, banking and payments. A number of ongoing major projects, designed to strengthen its operations, have added to the Bank's capital and operating costs in recent years. Several of these are expected to be brought to completion in 2016/17 and costs are expected to return to historical levels in later years.

The Reserve Bank's Costs

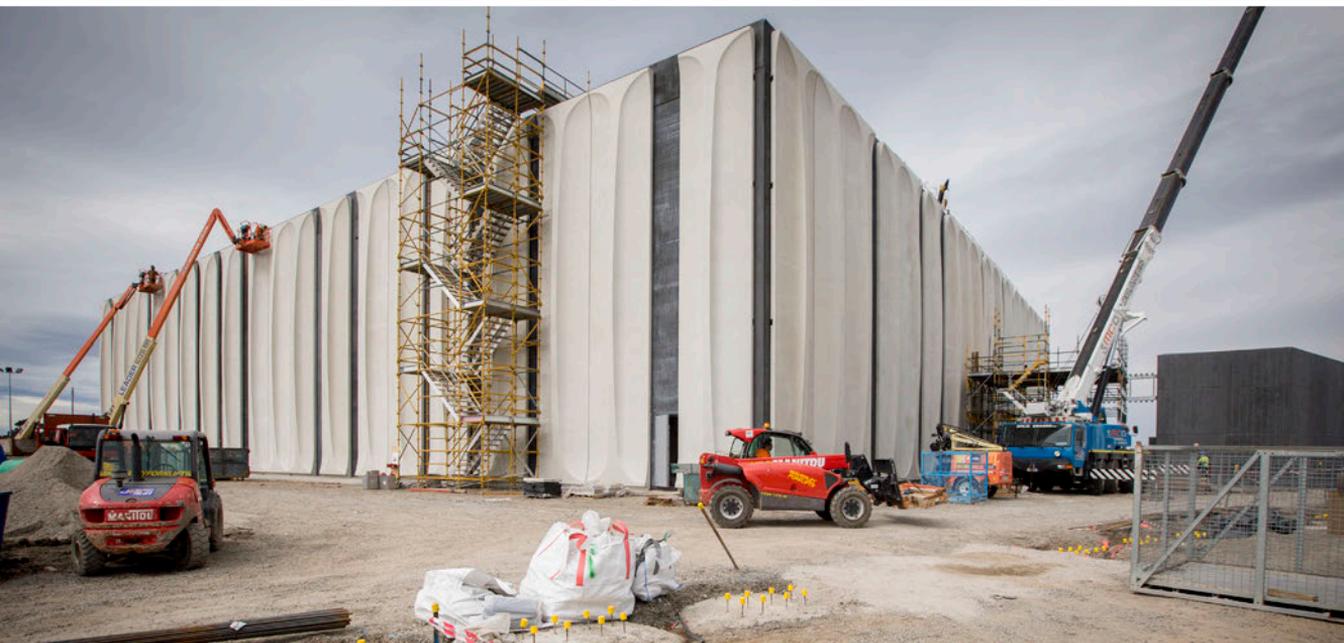
As has been foreshadowed in recent years, the Reserve Bank's costs rose noticeably in 2015/16 as the work on the portfolio of large projects, discussed in detail in other chapters of this annual report, entered a mature stage of delivery. The focus of these projects is to strengthen operations in relation to the Bank's charter obligations for monetary and financial policy, note issue and banking services, the latter including the systemically critical interbank payment systems. This work addresses risk, improves service levels or is necessary to meet industry requirements. Some, but not all, costs associated with this work will be recovered over time from higher user fees. Strengthening cyber security has also been a high priority over the past year.

A number of key projects were completed in the past year, while most others remain on track to be delivered within budget. Many of these projects are technology-intensive. While the rise in costs and headcount is expected to be temporary, both are expected to remain relatively high in the year ahead. With many projects in the portfolio expected to be brought to completion in 2016/17, costs, especially capital costs, are expected to return to around their historical

levels in later years. New projects to be initiated in 2016/17 have been approved on the basis that they will not add, in net terms, to the Reserve Bank's staffing.

Projects delivered in 2015/16 include initiatives to upgrade the capacity to assess the quality of collateral presented to the Reserve Bank at various points in its market operations. Planned further work on related systems includes moving to the latest information technology platforms, as current platforms will no longer be supported, and developing better systems to prepare for the Bank's daily market operations in Australia. A contemporary platform for storing, accessing and analysing information, including key data collections, was completed early in 2016. This will reduce the cost of providing databases for policy-based projects that are under way or will take place in the future.

Significant work has been undertaken on projects related to the issue of the new generation of banknotes. Major components of this work include the design, printing and issue of the new banknote series itself, adopting contemporary processing and logistics technology and the building of new storage infrastructure. The processing, storage and distribution of the



(Image top) Frank Campbell (Assistant Governor, Corporate Services) with Grant Baldwin (Head of Facilities Management Department), Ed Jacka (Senior Manager, Facilities Management Department) and Michael Walker (Senior Manager, Facilities Management Department) at the National Banknote Site in June 2016; (image above) a progress photo of the external precast panel façade of the National Banknote Site, August 2016

new series of banknotes will be centred on the National Banknote Site (NBS), which is being constructed adjacent to the printing facilities operated by Note Printing Australia Limited (NPA) at Craigieburn, Victoria. The NBS was approved by the Parliamentary Public Works Committee in February 2014. Construction is proceeding consistent with this approval, with practical completion expected by the end of 2016. The

project remains within the budget advised to the Parliamentary Public Works Committee.

Other major projects that are under way are designed to improve banking and payment services to customers and platforms provided to the finance sector. As well as starting the next stage of the work to update the Reserve Bank's own banking systems, the Bank is adapting

these systems to participate in the industry-led initiative to develop the New Payments Platform, which will allow low-value payments to be cleared and settled in near 'real time'. Separately, the Bank is also making a major contribution to this system-wide infrastructure by developing platforms that will immediately clear and settle transactions by authorised deposit-taking institutions resulting from these 'low-value' payments. The infrastructure for the Reserve Bank Information and Transfer System (RITS), Australia's high-value payments system, is being strengthened as hardware is replaced within a more resilient and secure network structure, thereby further reducing risk to the interbank payments system. These banking and payment systems will, over time, recover their ongoing operating costs from user fees.

With many large projects heavily dependent on information technology systems and infrastructure, work has been undertaken to ensure information technology assets are appropriately mature, resilient and manage operational and other risk to acceptable levels. Significant resources have been applied to strengthening cyber security. The Reserve Bank has been certified as complying to a mature standard with the 'Top Four' strategies recommended by the Australian Signals Directorate (ASD) for containing cyber threats; significant progress has been made in adopting the remainder of the ASD's strategies, with the Bank being certified as fully compliant with an additional 16 and having compensating controls for a further five. The Bank intends to implement the remaining 10 ASD strategies and achieve certification by the end of 2016. Contemporary storage technology was introduced, the first major activity provided as a managed service, in an arrangement that aims to reduce both cost and risk. A number of administrative systems have also been automated, with some offsetting cost

reduction from lower staff numbers working on relevant activities.

The Reserve Bank has a substantial program to maintain its physical assets, including buildings, to ensure that building services remain effective and resilient and that associated risks are managed appropriately. The mechanical systems that operate the passenger and bullion lifts in the Bank's Head Office, which date from the building's construction in the early 1960s, are currently being replaced. In 2015/16, a major project to strengthen perimeter security around the NPA site was completed, some Head Office accommodation was refurbished and work on upgrading the fire safety system was in train.

The project to transfer the Reserve Bank staff superannuation fund to an external master trust made good progress over 2015/16 and is expected to be completed in the year ahead, as the competitive process to make an appointment was completed and a provider appointed. This project will help manage to lower levels the risk associated with the continually changing regulatory landscape for superannuation and eliminate any potential for perceived conflicts of interest from the Bank undertaking such an activity. The transfer of this fund will also significantly reduce costs for the Bank and fund members, as well as provide better services to members. The trustees of the staff superannuation fund have endorsed this proposal. Administration of the fund had already been outsourced in 2013, with significant cost reductions at that time. The defined benefit component of the Bank's superannuation scheme was closed to new members in August 2014.

General operating expenses associated with running the Reserve Bank's routine operations and projects, as opposed to those associated with holding assets, making transactions or purchasing banknotes, rose by 9.1 per cent in 2015/16. This increase partly reflected additional

General Operating Costs^(a)

\$ million

| | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 |
|-------------------------|---------|---------|---------|---------|---------|
| Staff costs | 156.7 | 169.0 | 184.6 | 195.3 | 212.8 |
| Other costs | 72.7 | 76.8 | 87.4 | 89.0 | 97.4 |
| General operating costs | 229.4 | 245.8 | 272.0 | 284.3 | 310.3 |
| Of which: | | | | | |
| Cost of projects | 9.1 | 11.8 | 18.4 | 28.0 | 34.9 |

(a) Excluding NPA and banknote management expenses, and costs directly linked with transaction-based revenue

staffing associated with work on the major projects that are under way, as discussed above. Excluding spending on projects, operating costs for ongoing activities increased by 7.4 per cent in 2015/16. However, the previous year's costs had been held down by the delay in finalising the new Workplace Agreement, which meant that pay rises for 2014 were not paid until August 2015. Abstracting from this and the rise in depreciation, costs of 'business as usual' activities rose by 3.6 per cent in 2015/16. As noted in the chapter on 'Our People', the Workplace Agreement, which was negotiated in the context of expenditure restraint in the broader public sector, provided for a performance-based salary increase, distributed from a pool equivalent to 2 per cent of salaries in each of 2014/15 and 2015/16, alongside an increase in standard work hours from September 2016. The rise in operating costs for ongoing activities is expected to moderate in 2016/17, although total costs are expected to rise by a bit more than in 2015/16, as activity on projects peaks in 2016/17 and depreciation costs rise appreciably, reflecting the substantially higher asset base. The start-up of some new 'business as usual' activities, such as operations at the NBS, will also add to ongoing costs.

The extent of the Reserve Bank's investment in its strategic initiatives is reflected by the significant level of capital expenditure incurred in 2015/16. This also reflects the progress that has been made in terms of delivering the portfolio of

strategic projects in train across the Bank. Capital outlays, which rose by \$51.6 million, were heavily concentrated on the major initiatives to develop technology and communication systems for banking, payments and settlements, though they also reflect the work undertaken to strengthen security at the NPA site and the construction of the new NBS facility at that location.

Facilities and Environmental Management

The Reserve Bank owns premises in locations where there is a business need to do so, namely its Head Office in Sydney; the HC Coombs Centre for Financial Studies in Kirribilli, Sydney; office buildings in Melbourne and Canberra; the note printing facility at Craigieburn, north of Melbourne; and the Business Resumption Site in north-west Sydney. In addition to the buildings it owns, the Bank leases accommodation for its State Offices in Adelaide, Brisbane and Perth – where its requirements for space are modest – and for its offices in London, New York and Beijing.

The value of the Reserve Bank's property assets increased by \$35 million to about \$390 million in 2015/16, primarily because of an increase in the value of the Sydney, Melbourne and Craigieburn facilities. Surplus accommodation in the Bank's properties is leased to external tenants. Net income from these leases amounted to \$11.2 million in 2015/16, compared with \$10.9 million in the previous year.

Capital Costs^(a)

\$ million

| | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 |
|---|---------|---------|---------|---------|---------|
| Capital costs | 19.4 | 29.8 | 44.2 | 56.5 | 108.1 |
| Of which: | | | | | |
| Cost of significant projects ^(b) | 1.7 | 7.8 | 18.6 | 42.9 | 92.8 |

(a) Excluding NPA

(b) Projects on the Bank's Enterprise Master Schedule

The Reserve Bank is committed to improving the environmental performance of its operations. The Bank has developed policies that are in accordance with the principles of ecologically sustainable development as set out in the *Environment Protection and Biodiversity Conservation Act 1999*. These policies work to reduce the impact of the Bank's operations on the environment and include the following initiatives:

- reducing energy, water and paper consumption
- increasing the recycling of paper, co-mingled waste and printing cartridges
- adopting environmentally sustainable designs for office fit-outs
- use of 50/50 recycled paper
- greater use of fuel-efficient vehicles.

Compared with averages over the past five years, the key indicators are that electricity consumption declined by 2.3 per cent in 2015/16, with the largest reduction recorded at the Craigieburn facility, mainly associated with production scheduling.

Gas consumption was 13 per cent lower, following operational changes at the Craigieburn facility. Use of water was 5.4 per cent lower with improved water management systems in Head Office. The fuel consumption of the fleet of pool vehicles was 9 per cent more efficient than a year earlier.

Consultancies

The Reserve Bank employs outside contractors and professional service providers to carry out specific tasks where necessary and also, from time to time, uses consultants. Consultants are engaged where the Bank lacks specialist expertise or when independent research, review or assessment is required. Consultants are typically engaged to investigate or diagnose a defined issue or problem; carry out defined reviews or evaluations; or provide independent advice or information to assist in the Bank's decision-making. Prior to engaging consultants, the Bank takes into account the skills and resources required for the task, the skills available internally, and the cost-effectiveness of engaging external expertise. Spending on consultancies over the past eight years is shown below.

As in previous years, consultancies during 2015/16 covered a range of activities, with around three-quarters of spending related to the project to upgrade Australia's banknotes.

Spending on Consultancies^(a)

\$

| | |
|---------|-----------|
| 2008/09 | 63 000 |
| 2009/10 | 61 000 |
| 2010/11 | 102 000 |
| 2011/12 | 535 000 |
| 2012/13 | 1 190 000 |
| 2013/14 | 387 000 |
| 2014/15 | 773 000 |
| 2015/16 | 622 520 |

(a) Sum of individual consultancies that cost \$10 000 or more