

Management of the RBA

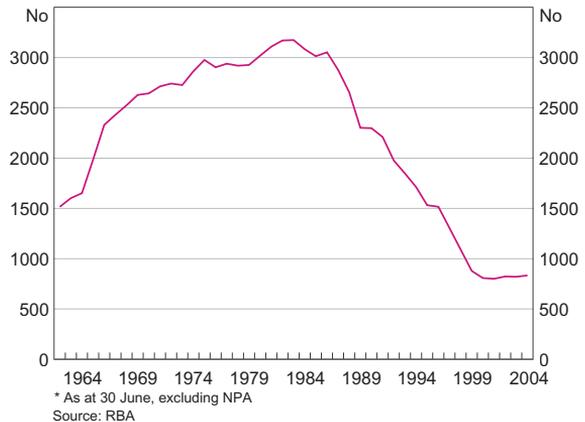
Overall staffing levels rose slightly in 2003/04 with total employees numbering 833 at 30 June. This small rise included an increase in staffing in the financial stability area of the Bank, as well as greater demands on IT skills as a program to improve computer systems in the payments and market areas began. More people were also working on the management of risk, both in co-ordinating this activity across the organisation and in improving arrangements for business continuity. By contrast with experience in a number of other recent years, there were no major staffing reductions in branches or elsewhere to offset the small increases in Head Office. More generally, the consolidation of activities evident for most of the past two decades has probably run its course. Further large staff reductions are unlikely as all of the branches, except Canberra, have now been closed, and all of the large efficiency gains have been realised from shedding activities, such as note distribution, limited outsourcing of some non-core services and from applying IT to labour-intensive processing work.

The network of Regional Offices was completed with the opening in 2003 of the office in Adelaide. This office moved to its new permanent premises in September 2003. The Regional Offices have a total complement of 13 staff, in Queensland, South Australia, Victoria and Western Australia. As outlined earlier in this Report, this network plays a key role in gathering information on economic conditions around Australia by liaising directly with businesses, government agencies, industry bodies and universities in the States concerned.

The process of reviewing staffing policies is ongoing. Remuneration policies, although by no means the only relevant factor, are critical to recruiting and retaining staff of suitable quality. The benchmarking of remuneration continued in 2003/04 through participation in industry salary surveys and advice from external remuneration consultants. A further 50 positions from across the organisation were evaluated by the Hay Group with the aim of comparing remuneration with positions of similar responsibility in the private sector. The use of individual employment contracts has, in recent years, provided greater flexibility to match remuneration with responsibility and performance. As well as improving rewards, staff have agreed, within these contracts, to forgo certain entitlements, including housing assistance. None of the most

Graph 11

Number of RBA Staff*



senior staff now has a housing loan from the RBA. Almost 60 per cent of staff are employed on individual contracts, with 80 per cent of staff in managerial and professional positions on contracts. The move to individual contracts is entirely voluntary. Staff who decide against the offer of contract employment retain existing conditions of work.

For staff who remain on an industrial award, an enterprise bargaining agreement (EBA) for 2003 and 2004 provided the basis for changes to remuneration and other employment conditions. This EBA provides more flexibility than in the past to reward staff according to performance within existing budget constraints. Staff covered by this agreement received an annual salary increase of 4.0 per cent in November 2003; they will receive another increase of this size in November 2004. In 2003, staff on individual contracts received, on average, the same annual increase as staff covered by the EBA.

In recruiting, the RBA adopts practices to ensure that it is competitive in the market for high-calibre honours graduates in economics and related disciplines. Twenty-nine graduates, representing 25 per cent of all new employees in 2003/04, began a two-year Graduate Development Program. These graduates were employed mainly in the policy areas, although a small number had qualifications in information technology and accounting. In 2003/04, 28 graduates completed the Graduate Development Program; all were offered and accepted ongoing employment.

These recruitment efforts at the graduate level are supported by the Cadetship Program, which provides two months of work experience before the university honours year begins for students who have completed, to a high standard, three years of undergraduate study. This program also provides financial support during the honours year for cadets who accept a place on the next Graduate Development Program. Sixteen cadetships were offered in 2004. The Cadetship Program has played a leading part in recruiting staff of suitable quality. In 2003/04, for example, almost half of new graduates had been cadets the previous year. In addition to the graduate and cadetship intakes, employment for 11 trainees in business administration, IT and print design was provided through the Australian Government's New Apprenticeship and Traineeship System.

The emphasis on recruiting graduates reflects the sharper focus on the RBA's policy responsibilities as other parts of the organisation have contracted in size over the past two decades. Five years ago, positions in the professional and managerial streams comprised about 40 per cent of staff; this has now risen to almost 60 per cent. More than half of staff now have degree qualifications, while almost a fifth have post-graduate qualifications.

Training and development programs have evolved further in the past year. A new performance management scheme has been introduced, with an increased focus on identifying development needs of staff. Staff seeking to improve their formal qualifications are supported in a number of ways, including through the Post-Graduate Study Award (PGSA) Program. This program provides financial assistance each year to a few of the most capable recent graduates to permit them to undertake full-time post-graduate study in relevant disciplines at universities in Australia and overseas. At 30 June 2004, eight staff were studying overseas under the PGSA Program. Staff who receive these awards are required to agree to reimburse costs if they resign during the term of the award or if they leave the RBA before completing an agreed period

of work after they return from their studies. Study assistance is also provided to other staff to obtain relevant qualifications. Fifty-one staff are currently undertaking part-time tertiary studies in Australia, the majority toward post-graduate qualifications. Tuition fees are met on the successful completion of course subjects.

Vocational training continues to be available to staff, much of which is delivered on-line. Face-to-face training courses, which typically make use of external experts to develop and deliver course content, are available in-house.

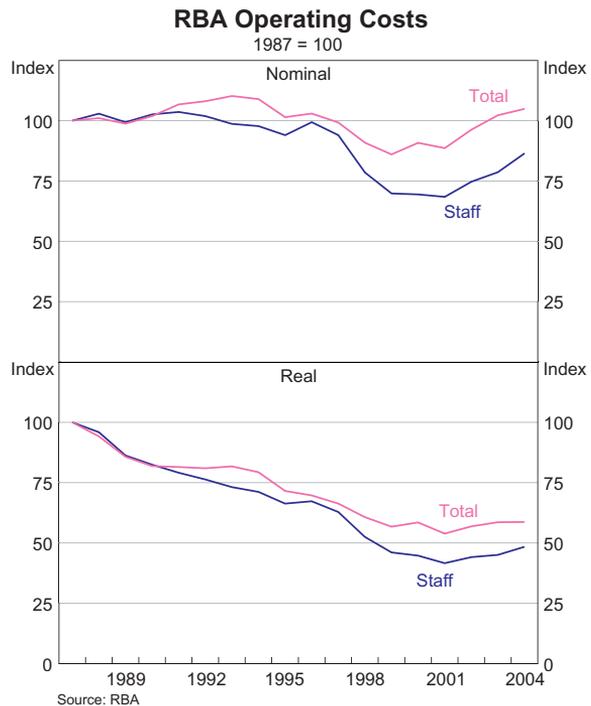
Further staff development is achieved through transfers and rotations within the organisation, including to overseas and regional offices. Secondments are also available to other relevant institutions. Over the past year, staff have worked at the Bank for International Settlements, the Bank of England, the Australian Treasury, the Australian Taxation Office and the Australian Prudential Regulation Authority (APRA).

Operating Costs

Total operating costs increased by 2.6 per cent in 2003/04 to \$144.1 million. Notwithstanding this increase, total operating costs remain about 5 per cent lower in nominal terms than early in the previous decade. Operating costs during the year were boosted by costs associated with currency processing and distribution, as the new arrangements with armoured car companies became fully established and additional note sampling was undertaken. Legal costs in 2003/04 were lower because of the completion of the proceedings related to credit card reform. The RBA's costs were boosted by a total of \$6.5 million in 2002/03 and 2003/04 by expenses associated with litigation over credit card reforms. Following a judgment in favour of the RBA, costs totalling \$5.4 million were recovered.

The rise in staff costs reflected an annual increase in base salaries of 4 per cent in November 2003, plus some performance payments. Included in staff expenses was an amount of \$3.3 million as the RBA recommenced employer contributions to the staff's defined benefit superannuation scheme, after a funding "holiday" since 2000. Total contributions to the staff superannuation fund amount to 9 per cent of salaries, including the contribution of 3 per cent for the productivity award. Average

Graph 12



Operating Costs^(a)									
(\$ million)									
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Staff costs	98.3	93.0	77.7	69.1	68.7	67.7	73.9	77.8	85.5
Other costs	43.2	43.4	47.2	49.1	56.1	54.1	58.4	62.7	58.6
Underlying operating costs	141.5	136.4	124.9	118.2	124.8	121.8	132.3	140.5	144.1
Cost of redundancies	1.3	7.5	20.7	18.4	9.3	2.6	3.4	2.6	0.2

(a) Costs associated with the ongoing operation of the RBA, excluding NPA.

staff levels in 2003/04 were around the level of the previous year. Nominal staff costs remain less than 85 per cent of their level at the peak in 1990/91. In real terms, staff costs are still about half their peak.

In recent years, over half of the RBA's operating costs have been incurred in the core policy areas of monetary policy and financial system surveillance. The apparent shift in resources towards policy areas from earlier years mainly reflects the fact that note issue and banking operations are now much smaller in absolute terms than they were, although there has also been some small increase in resources in the monetary policy and financial stability areas. Policy groups aside, the remaining costs are now spread fairly equally between note distribution, banking and registry operations, and the provision of settlement services. (Details on these activities are provided in the chapter on "Business Services".)

Settlement services account for a slightly increased share of costs following the introduction of RTGS and, subsequently, its in-house operation in recent years. While the share of resources devoted to note processing and distribution has risen in the past year, as the rate of note sampling has been lifted to levels that will provide greater confidence that notes in circulation remain of high quality, these costs are still much less than in the late 1990s. With

Distribution of Underlying Operating Costs^(a)					
(Per cent)					
	Monetary policy	Financial system surveillance	Note distribution	Banking and registry	Settlement
1998/99	35	8	20	23	14
1999/00	35	8	23	20	14
2000/01	41	9	17	18	15
2001/02	43	9	15	18	15
2002/03 ^(b)	45	10	13	17	15
2003/04 ^(b)	46	10	15	14	15

(a) Excludes NPA
(b) Because costs of financial system surveillance have been distorted by costs associated with litigation, these latter costs are excluded from the figures in the table.

the consolidation of banking and registry activities, the share of total costs arising from these operations has declined in the last few years. This trend continued in 2003/04, with changes to cheque processing arrangements.

Facilities Management

The reduction in staffing in recent years, and the shedding of certain activities such as note distribution and branch banking, have greatly reduced the RBA's accommodation needs. The RBA has, as a result, sold the buildings it owned in Darwin, Brisbane, Hobart, Perth and Adelaide, which formerly housed its branches. The only premises it now owns interstate are in Melbourne and Canberra. These buildings are retained because there are business reasons for doing so, although most of the space in them is occupied by tenants. In addition, with the available space in Head Office exceeding requirements, almost four full floors have been leased to tenants.

Also within Head Office, significant progress has been made towards the completion of the Museum of Australian Currency Notes, located on the ground floor in an area previously occupied by a general display area. In conjunction with this project, access for people with disabilities is being upgraded to both the general banking chamber and the museum.

During the year, work commenced on the feasibility phase of a business resumption site. The feasibility phase involved site analysis, facility brief development and risk assessments. The program for the business resumption site is based upon securing a suitable site in 2004/05. The Bank has been assisted by external site and risk assessment specialists and independent cost planners.

The RBA has in recent years adopted a number of environmental policies, many of which have been cost-reducing, including policies to reduce consumption of electricity, gas and water. Energy consumption has been reduced by one third in recent years. Waste paper collection and other recycling practices have been adopted as have purchasing guidelines which encourage the purchase of recycled office products, where appropriate.

Consultancies

Like other large organisations, the RBA employs outside contractors to carry out specific tasks where necessary, and also, from time to time, uses consultants. A consultant is a person or organisation that investigates particular issues and then provides independent advice.

The following consultancies costing \$10 000 or more were used during 2003/04:

Name	Project	Cost (\$)	Purpose
Bassetts Consulting Engineers	Head Office Building	20 570	Feasibility study on upgrading Head Office electrical infrastructure and improving its resilience
Capital Insight Pty Ltd	Business Recovery (BR)	43 648	Risk assessment of proposed BR site
Gilbert & Tobin	RBA Board	19 679	Legal advice to Reserve Bank Board on its powers and delegations
Hay Group Pty Ltd	Personnel Practices	50 000	Market testing of remuneration of RBA staff
Mallesons Stephen Jacques	Purchased Payment Facilities	26 354	Legal costs associated with proposed regulation of Purchased Payment Facilities
Sinclair Knight Merz Pty Ltd	Business Recovery (BR)	85 800	Due diligence of proposed BR site
TEIMS (Australia) Pty Ltd	NPA IT systems	10 074	Review of information systems used by NPA to control business operations and provide financial information