Management of the Bank

Further adjustment to the Reserve Bank's structure and staffing occurred during the year, in response to changed responsibilities and the continued pursuit of efficiency gains.

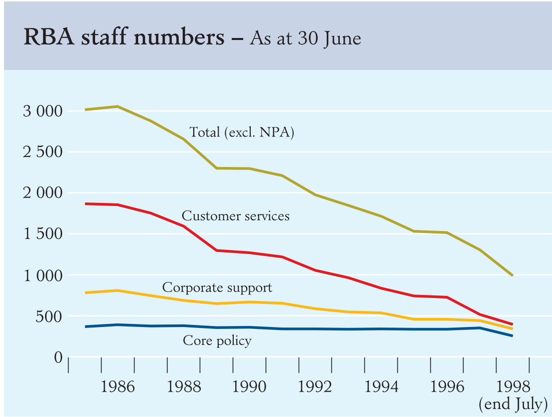
Since 1990, the Reserve Bank has been organised into five major groups, each reflecting a key functional activity – economic analysis and research; operations in domestic and international financial markets; supervision of banks and the payments system; the provision of business and cash services; and internal corporate support services. This overall administrative framework continues to operate effectively, but important adjustments within two of the groups took place during the year, in part reflecting changes to the Bank's responsibilities in Australia's new structure of financial regulation.

The most substantial change has involved the Financial Institutions Group. On 1 July 1998, Bank Supervision Department within this Group was abolished and most of its 65 staff assigned to APRA. In its place, a new and smaller System Stability Department has been created to support the Reserve Bank's role in protecting the stability of the financial system. At the same time, reflecting the Bank's enhanced powers in the payments system, the former Financial System Department was restructured and renamed Payments Policy Department. The net result of the various adjustments is a reshaped and refocused Financial System Group and a substantial reduction in the total number of staff involved in these respecified core policy functions.

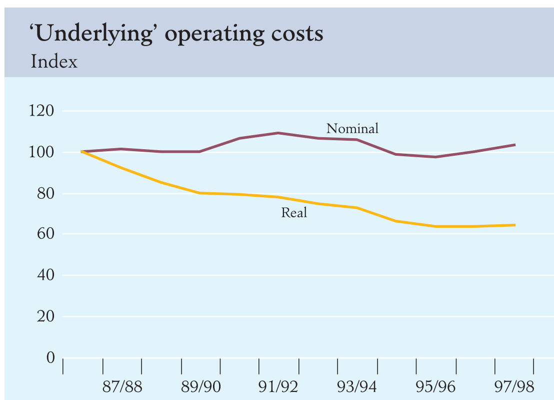
Within the Business Services Group, as the full implementation of the RTGS system in June 1998 grew closer, a new Payments Settlements Department was created. The resulting small increase in staff numbers was, however, more than offset by reductions elsewhere in the Business Services Group: over 90 branch and Head Office staff in the Banking Department and Note Issue Department left the Reserve Bank during the year in terms of agreed redundancy arrangements; a further 130 staff are expected to depart before December 1998. Within these totals, the closure of Darwin branch last year and the closure of Hobart branch later this year will result in the loss of 26 staff.

Adjustment also occurred in some support areas of the Reserve Bank. Personnel Policy Department was reorganised into a smaller strategic unit of 17 (from 31 previously), reflecting contraction of the Bank, the outsourcing of some non-core functions, and devolution of day-to-day staffing decisions to departments. Early in the year, in-house Head Office catering arrangements were outsourced, following an assessment that they could be handled more efficiently by an external provider.

The overall outcome of these various adjustments was a fall of 212 in Reserve Bank staff numbers, excluding Note Printing Australia (NPA), over the year, and a 60 per cent decline in staffing over the past decade. Efforts to reduce costs and increase international competitiveness at NPA resulted in a reduction in staff numbers of 74 over the past year. At end July 1998, there were 987 staff employed by the Bank (excluding the recently corporatised NPA, which employed 183 staff at that date).



During 1997/98, the Governor, Deputy Governor and senior staff of the Bank received a 4.4 per cent increase in salary, the same rise paid to staff generally in April 1997 under productivity bargaining arrangements. Despite this increase, the reduction in staff numbers meant a significant fall in staff costs. This fall was matched by a rise in other costs, including those arising from the introduction of the Bank's agency-collection services (a significant proportion of which is associated with the management of the ATO's Billpay service); an increase in the volume of note substrate purchased; and payments for guards and cheque processing under outsourcing arrangements. However, these cost rises have been more than matched by increases in revenue or savings in staff costs: the costs of the agency-collection services are recovered from the Bank's customers; the costs for substrate were covered by sales abroad; and payments for guarding services and cheque processing were more than matched by the savings in staff costs made as a result of outsourcing. Overall, the Bank's underlying operating costs (excluding redundancies and certain other one-off items) rose modestly in 1997/98 but remained below their peak in 1991/92. In real terms, of course, costs have fallen significantly since their peak.



Operating costs

($ million)

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
Staff costs#	112.3	111.7	108.0	106.6	111.9	93.8
Other costs*	68.7	67.7	59.6	58.8	58.0	81.4
Underlying operating costs	181.0	179.4	167.6	165.4	169.9	175.2
Cost of redundancies	2.7	9.8	18.1	1.3	12.9	29.7

\# Excludes redundancies and, from 1994/95, additional charges to comply with new accounting standard AAS30

* Includes premises and equipment (including depreciation), but excludes IMF Maintenance of Value payment

The share of operating costs absorbed by commercial activities and note production increased in 1997/98, reversing a trend seen in earlier years for core functions (mainly monetary policy, financial system surveillance and note issue) to account for a higher proportion of costs. This was due to increases in non-staff costs mentioned above, i.e. mainly those associated with the agency-collection services and higher payments for substrate. The fall in the share of costs associated with note distribution reflected net savings flowing from the outsourcing of guarding services.

Distribution of operating costs

(Per cent)

	Monetary policy	Financial system surveillance	Note distribution	Note production	Banking, registry and settlement
1996/97	23	11	22	22	22
1997/98	21	10	15	28	26

Measuring the output of a central bank is very difficult. However, the indicators in the accompanying table suggest, despite lower staff numbers, that the Reserve Bank has been able to handle substantially increased volumes in a number of activities.

Indicators of output

(Percentage change, 1990/91 – 1997/98)

Banking and registries	
Banking transactions (including GDES)	280
Bank accounts maintained	75
Registry transactions (including RITS)	330
Transactions in domestic and foreign markets	
Domestic market operations	320
Foreign exchange transactions	150
Transactions in foreign government securities	375
Published economic and policy commentary	135

Improved efficiency has been complemented by a number of corporate human-resource initiatives taken during the past year. A new Equal Employment Opportunity (EEO) Plan was launched to cover the period to June 1999, the fifth in a series of such plans developed since the mid 1980s, details of which are contained in a separate EEO Annual Report tabled in the Australian Parliament each year. Support for the employment of trainees under the Government's Modern Australian Apprenticeship and Traineeship Scheme has continued, and work experience has been provided to a number of students. In June the Reserve Bank's licence to self-insure its workers' compensation claims was renewed by the Safety Rehabilitation and Compensation Commission for a further three years. The number of new claims fell during the year, although the overall costs of active claims were a little higher than last year. Self-insurance costs continued to be lower than those associated with Comcare.

The Reserve Bank continues to encourage staff to invest in further development. Demand for internal training, through formal courses or the Bank's self-paced learning centre, remained at a high level during the year, with over 1 100 person hours of participation by staff. With Reserve Bank financial support, four staff are at present studying full-time at universities abroad under the Bank's Post-Graduate Study Award scheme and a further 146 are involved in part-time tertiary study in Australia.

Year 2000 Problem

The Reserve Bank began working on the Year 2000 problem in 1996. During 1997, a formal project was established and a set of milestones agreed. Since then work on the Year 2000 issue has proceeded in line with the targets. The Year 2000 project is controlled by a Steering Committee which reports to the Governor. The Steering Committee is chaired by the Assistant Governor (Corporate Services), with all business areas reporting directly to the Committee on progress relating to applications in their areas.

The Audit Department is reviewing the project, identifying risks and exposures and providing an independent check on reported progress and resolution of issues. The project is also reviewed by the Australian National Audit Office.

The Reserve Bank operates a range of core applications for banking and business services, policy support and administration. These applications include some 30 mainframe systems employing around 4.5 million lines of code, 10 mid-range systems and more than 50 000 departmental applications (such as spreadsheets) developed in a standard set of PC products.

In the course of the Year 2000 project, more than 1 000 PCs and 300 telecommunications and system software components had to be checked throughout the Reserve Bank's Australian and overseas offices. Property-related systems, such as lifts and air-conditioning, along with security systems and key suppliers, also needed to be assessed and monitored for Year 2000 compliance.

Project milestones

Milestone	Target completion date
Inventory (compiling a list of all software and hardware items, vendors, service providers, suppliers, etc.)	November 1997
Assessment (identifying all dates within these items and determining the scope of potential problems)	March 1998
Remediation (modifying in-house software to be Year 2000 compliant, and purchasing compliant releases of proprietary software and hardware as necessary)	September 1998
Testing (exhaustive compliance testing using special testing environments to avoid interruptions to current operations; proprietary products claimed to be compliant by vendors will also require testing)	December 1998
Implementation (migration of converted and tested in-house software into the Reserve Bank's production environment)	January 1999
Sign-off (each Group or Department providing a statement of compliance for systems, equipment and services under their control)	March 1999
Contingency Planning (developing formal contingency plans to ensure continued operation of critical systems and services during the century roll-over period, particularly where the Reserve Bank's systems interface with external parties)	September 1999

The inventory phase of the project is complete, and the assessment phase is complete for all core processes. Assessment of some low-risk processes will be completed in conjunction with remediation. The remediation phase is now well under way. In fact, it is judged that as at end July 1998 remediation was over 60 per cent complete for core processes.

The Reserve Bank is participating in an interbank working group on Year 2000 issues, which, together with the Australian Payments Clearing Association, is co-ordinating a program of testing of each of the major payment streams. The Bank will participate in these tests, which are expected to begin in October 1998.

Although a good deal of work remains to be done, the Reserve Bank has a high degree of confidence that the objectives of its project will be achieved.

Costs

The total cost for work in the Reserve Bank related to resolution of the Year 2000 problem will be approximately $5 million, the bulk of which is for existing staff redeployed from other activities. During the term of the Year 2000 project, the Bank will have upgraded its mainframe operating environment and extensively overhauled its networks at a cost of around $1.5 million. While these new systems are necessary to ensure the Bank will be Year 2000 compliant, it is probable that they would have been needed even in the absence of the Year 2000 problem, albeit at a later date in some cases.