

Management of the Reserve Bank

The major consideration affecting the Reserve Bank's costs in 2014/15 was the ongoing work on the program of major strategic projects initiated in recent years. Apart from this, operating costs were well contained in the past year.

The Reserve Bank's Costs

The major consideration affecting costs in 2014/15 was again the ongoing work on the program of major strategic projects initiated by the Reserve Bank in recent years, as explained in the 2014 Annual Report. Other ongoing costs, which still represent 90 per cent of total operating costs, remained well contained.

Some policy-driven projects begun in previous years were completed in 2014/15. Further progress was made on the delivery of others, and some new projects were added to the program, partly in response to industry-led initiatives that will provide new infrastructure to the public and contemporary services to the Reserve Bank's customers. This extensive program of work is driven by several broad influences, namely:

- to meet operational obligations placed on the Bank by its legislation in an environment of new demands, rising risk and evolving technology
- evolving practice in the implementation of monetary and payments policy
- the aim to control strategic risk of different kinds more effectively.

While each element of this portfolio is justified in terms of the public interest, some projects will result in additional revenue streams, others will lower costs over the medium term and, in other cases, benefits will be reflected in reduced risk or better control.

The largest set of initiatives is associated with the issue of the new series of banknotes. In addition to the effort to design, print and issue the new series of banknotes, these initiatives include key projects to strengthen logistics for this activity, introduce new equipment to process banknotes more efficiently, and build a new facility for storing, distributing and processing them. As well as introducing a materially more secure series of banknotes, completion of these complementary projects will place Australia's arrangements for issuing banknotes at the forefront of international best practice in this activity. The construction of the new banknote storage facility, the National Banknote Site (NBS), at the Reserve Bank's site at Craigieburn in Victoria was endorsed by the Parliamentary Public Works Committee in March 2014. Construction of the NBS began in June 2015 and is scheduled for completion in the first half of 2017.

Major development activity in the banking, payments and settlements functions is substantially in response to the industry-led initiative to develop

Construction of the NBS scheduled for completion in the first half of 2017



Assistant Governor (Currency), Michele Bullock, and Mark Baker, CFO, Watpac Limited, builder of the new National Banknote Site, in Craigieburn, Victoria, June 2015

the New Payments Platform to allow low-value, 'every day' payments by consumers and businesses to be cleared and settled in near 'real time'. The Reserve Bank is making a major contribution to this infrastructure by developing systems that will immediately clear and settle transactions by ADIs associated with these transfers. In parallel, the Bank is adapting its own banking services to participate in these system-wide initiatives. The project to introduce contemporary banking platforms for the Bank's own customers, the largest of which is the Australian Government, continues to be progressively implemented.

A number of initiatives are under way, or are about to begin, centred on the Reserve Bank's market

operations. These projects will see these operations become more efficient, strengthen control and substantially reduce costs for counterparties. They will also strengthen support for key facilities recently provided by the Bank, including the 'open repo' facility and the Committed Liquidity Facility. This work includes projects to:

- undertake operations in securitised instruments and manage the associated risks more efficiently
- upgrade the core trading system, including middle and back-office systems
- strengthen forecasting systems that underpin liquidity management operations.



(From left) Head of Facilities Management Department, Grant Baldwin, Deputy Governor Philip Lowe and Senior Manager (Facilities Services), Ed Jacka, at the National Banknote Site Ground Breaking Ceremony, Craigieburn, Victoria, June 2015

New work to develop systems to improve the quality and efficiency of data collections from financial institutions places these collections on more suitable platforms; automating the collection of information from over-the-counter (OTC) derivatives markets is consistent with undertakings given by Australia in international forums. The Reserve Bank's work in collecting and managing the extensive information it holds – primarily as the basis of advice on monetary policy and financial stability and in support of its operations – is being strengthened by the introduction of contemporary technology for this purpose.

The Reserve Bank encounters risk from diverse sources and pursues initiatives over time to improve its management of a variety of material threats to its key activities. This sometimes requires building physical infrastructure, such as the NBS. Another

such investment, completed in 2007, was the construction of the Bank's Business Resumption Site (BRS) in the outer suburbs of Sydney. Its importance was demonstrated after the siege at the Lindt Café in Martin Place in December 2014, which occurred in premises adjacent to the Bank's Head Office building, where most of its operations are conducted each day. As access to Head Office was not available following this incident, the Bank transferred its critical operations to the BRS, thereby avoiding any interruption to the services it must provide on a virtually continuous basis to the financial system and the community, including those for 'real time' interbank settlement, market operations and banking. When access was restored, critical systems were returned to Head Office smoothly.

A major infrastructure project currently under way is to strengthen perimeter security at the Reserve

General Operating Costs^(a)

\$ million

	2010/11	2011/12	2012/13	2013/14	2014/15
Staff costs	148.1	156.7	169.0	184.6	195.3
Other costs	72.1	72.7	76.8	87.4	89.0
General operating costs	220.2	229.4	245.8	272.0	284.3
Of which:					
Cost of projects	6.3	9.1	11.8	18.4 ^(b)	28.0

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

(b) Some activities have been subsequently reclassified as business as usual

Capital Costs^(a)

\$ million

	2010/11	2011/12	2012/13	2013/14	2014/15
Capital Costs	24.9	19.4	29.8	44.2	56.5
Of which:					
Cost of significant projects ^(b)	2.9	1.7	7.8	18.6	42.9

(a) Excluding NPA

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

Bank's Craigieburn site. The existing infrastructure had largely been in place since the 1980s and the risk was rising that it would no longer provide satisfactory protection for a site of this kind. Within the Head Office building, operating mechanisms of passenger lifts and the industrial lifts that transport banknotes between locations are being replaced; this work replaces equipment that has been in use since the building was first occupied early in 1965. Separately, one floor has been recovered from tenants and will be refurbished to help accommodate the rising number of staff associated with the Bank's heavy project workload.

A major project is under way to transfer governance of the staff superannuation fund to an external master trust, to more effectively manage risks associated with the changing regulatory landscape and the increasingly demanding responsibilities on trustees.

As many of these initiatives draw heavily on information and communication technologies, the investment in technology assets and in ICT skills has been large. These skills are of a kind similar to those currently in high demand elsewhere in the financial sector. New resources have also been

made available in risk management, compliance and project governance. These new resources have the aim of ensuring that the Reserve Bank's senior executives are able to maintain awareness of progress with this complex portfolio of work, that individual initiatives proceed efficiently, risks are managed effectively and the work is delivered as specified. Significant steps have also been taken in the Bank's IT activities to secure the Bank's systems against the threat of cyber attack.

While the rise in staffing and capital expenditure associated with the major projects is large and expected to rise further in the next year, this is expected to be largely temporary as projects are progressively delivered. The total of operating and capital outlays is expected to peak next year. Outlays on projects are then expected to return towards the historical norm, though depreciation costs on new assets will likely be higher over the medium term.

General operating expenses associated with running the Reserve Bank, as opposed to those associated with holding assets, making transactions or purchasing banknotes, rose by 4.5 per cent in 2014/15, with operating costs, excluding spending on projects, increasing by 1.1 per cent. This

moderate increase partly reflects the deferred salary adjustment in 2014/15 as the Bank carried out negotiations for a new Workplace Agreement (see the chapter on 'Our People' for details). Operating costs associated with projects increased by 52.2 per cent, to \$28.0 million.

The progress evident in delivery of the range of initiatives is also apparent in capital outlays, which rose by about \$12 million in 2014/15. This is heavily concentrated in major initiatives to develop technology and communications systems for banking, payments and settlements, though it also reflects work to strengthen security at the Craigieburn site. Spending on the new highly secure banknote storage facility is expected to be concentrated in 2015/16.

Facilities

The Reserve Bank owns premises in locations where there is a business need to do so, including 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 outer 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 \$21 million to about \$354 million in 2014/15, mainly reflecting increases in the value of the Sydney and Melbourne CBD facilities. Surplus accommodation in the Bank's properties is leased to external tenants. Gross income from these leases in 2014/15 amounted to \$13.3 million. During the year in review, the Bank carried out the usual program to maintain the plant and equipment that supports the occupation of these facilities at an acceptable standard.

Environmental Management

The Reserve Bank is committed to improving the environmental performance of its operations. The Environmental Management Committee in the Facilities Management Department 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 reduce the impact of the Bank's operations on the environment and include the following initiatives:

- reducing energy, water and paper consumption
- procuring 10 per cent of electricity needs from renewable (green) sources
- increasing the recycling of paper, co-mingled waste and printer cartridges
- adopting environmentally sustainable designs for office fit-outs
- use of 50/50 recycled paper
- greater use of fuel-efficient vehicles.

Electricity consumption by the Reserve Bank declined by 2.6 per cent in 2014/15, compared with the five-year average. The biggest reduction in electricity consumption occurred at Head Office and was associated with the installation of a more efficient system for chilling water for the data centre.

Lower production at Craigieburn contributed to reductions in:

- gas use, which was 5 per cent lower than the five-year average
- water, which was 10 per cent lower than the five-year average
- waste, which was 8 per cent lower than the five-year average.

The Reserve Bank will continue to pursue lower targets for the use of energy and water, including by developing systems to measure consumption of these resources more accurately.

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, who 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.

As in previous years, consultancies during 2014/15 covered a range of activities, including compliance, corporate governance and the Reserve Bank's operations, with spending again significantly boosted by ongoing work on several major projects, including the development of the new series of banknotes.

Spending on consultancies over the past eight years is shown below.

Spending on Consultancies^(a) \$

2007/08	260 000
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

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