

Submission to the Inquiry into Development of the Commonwealth Performance Framework

May 2015

Introduction – relevant features of the Reserve Bank

The Reserve Bank of Australia is established under federal legislation as a body corporate distinct from the Commonwealth of Australia. The Bank has two Boards, the Reserve Bank Board and the Payments System Board. The Reserve Bank Board is responsible for the Bank's monetary policy and the Bank's policy on all other matters, except for payments system policy, for which the Payments System Board is responsible.

The Reserve Bank Board is afforded substantial independence under the *Reserve Bank Act 1959* to determine and implement the monetary and banking policy of the Reserve Bank, as will best contribute to the objectives of the Bank set out in that Act. The *Statement on the Conduct of Monetary Policy*, as updated from time to time with the Treasurer of the day, has recorded the common understanding of the Governor, as Chair of the Reserve Bank Board, and the government on key aspects of Australia's monetary and central banking policy framework since 1996. The *Statement*, which seeks to foster a sound understanding of the nature of the relationship between the Bank and the government, records that the government recognises and continues to respect the Bank's operational independence.

The Reserve Bank also has a very substantial balance sheet¹ and a long history of positive underlying earnings². Accordingly, as a general matter, the Bank is not funded by the Commonwealth. It does not prepare or publish Portfolio Budget Statements³.

Reserve Bank reporting and communications

The Reserve Bank receives an enormous amount of scrutiny, from a variety of sources including Parliament, the media, the general public and the financial markets. It is subject to daily commentary on its operations and performance. Consistent with the degree of focus on its operations and performance, the Bank seeks to ensure a high degree of transparency about its activities, goals, decision-making processes and the basis of its policy decisions. Transparency facilitates the Bank's accountability, and aligns with its operational independence. Importantly, it also increases the effectiveness of policy decisions by promoting a better understanding of those decisions in the wider community. It follows that the Reserve Bank has a very extensive program of reporting and communication. This section describes key elements of that program.

1 As at 30 June 2014, total assets were valued at \$141.5bn and net assets at \$18.3bn.

2 For the year ended 30 June 2014, underlying earnings were \$442m, an exceptionally low level in historical terms, which reflects the protracted period of low interest rates globally. Underlying earnings have been positive every year since at least 1970.

3 Section 36 of the *Public Governance, Performance and Accountability Act 2013* does not apply to the Bank.

The Reserve Bank publishes a comprehensive Annual Report each year that includes details of its structure and governance arrangements, its activities in the relevant period and its financial statements for that period. In addition, the Payments System Board publishes an Annual Report of its operations under section 25M of the *Reserve Bank Act 1959*. The House of Representatives Standing Committee on Economics has, in its Standing Orders, an obligation to review each of these the Annual Reports. The Committee holds twice-yearly public hearings, at which the Bank presents its views on the economy and financial markets and other matters pertaining to the Bank's operations, and responds to questions from Committee members.

The regular twice-yearly appearances before the Committee and the quarterly *Statement on Monetary Policy* (see below) are important elements of the arrangements embodied in the understandings between the Governor and the Treasurer. In addition to these appearances, the Bank regularly makes written submissions to Parliamentary inquiries.

The quarterly *Statement on Monetary Policy* provides information to the general public, financial markets and media about the Reserve Bank's views on monetary policy and developments in financial markets. It also provides a basis for the Parliamentary Committee's questioning of the Bank. The *Statement* contains a detailed analysis of conditions in the economy and financial markets and describes the outlook for inflation and the economy more generally.

The Reserve Bank Board meets 11 times each year. On the day of each Board meeting the Bank makes an announcement about the Board's monetary policy decision at that meeting. Minutes of the monetary policy business of each meeting are also released publicly.

The *Financial Stability Review*, published each March and September, provides a detailed assessment of the condition of Australia's financial system, along with analysis of financial system issues of special interest. In addition, the *Review* reports on domestic regulatory issues, including through the Reserve Bank's work with the Council of Financial Regulators (CFR), which is the coordinating body for Australia's main financial regulatory agencies.

Australia's financial stability policy framework includes mandates for financial stability for several of the CFR agencies. The Reserve Bank is responsible for promoting overall financial system stability, while the prudential elements of that framework rest with the Australian Prudential Regulation Authority (APRA). Together with other CFR agencies, the Reserve Bank prepares occasional papers on aspects of Australia's financial stability.

The Reserve Bank's quarterly *Bulletin* contains analysis of a broad range of economic and financial developments as well as aspects of the Bank's operations. *Bulletin* articles also complement the *Statement on Monetary Policy* by providing more detail about specific economic developments and measurement issues.

During 2013/14, the Governor, Deputy Governor and senior Reserve Bank officers gave 42 speeches on various topics, unchanged from the previous year. Questions were taken after all speeches. Senior Bank staff also participated in a number of public panel discussions. In addition to explaining current economic and financial conditions, many speeches addressed the longer-term influences on the economy and the challenges associated with adapting to structural change and raising productivity. There were also speeches devoted to innovation and reform in the payments system, along with reflections on financial system stability in the post-crisis environment. Audio files of these speeches, the associated Q&A sessions and panel discussions were published on the Bank's website to improve accountability and communication.

The Reserve Bank disseminates the results of longer-term research conducted by its staff in the form of Research Discussion Papers (RDPs). The aim of the RDP series is to promote deeper understanding of policy-relevant issues. During 2013/14, 12 RDPs were published on a range of topics, including the impact of the terms of trade on the Australian economy, the housing market, trends in the Australian banking sector and developments in payment systems. Bank staff also published their research in various external journals.

Research undertaken at the Reserve Bank is frequently presented at external conferences and seminars and the Bank also hosts regular conferences which foster interaction between academics, central bankers and other economists on topical policy issues (and the Bank publishes the proceedings of its annual conference).

The Reserve Bank publishes information in both electronic and hardcopy formats, though most access to information is now online. The website is heavily visited, with over 62 million page views and downloads made during 2013/14, and large spikes in visitation at the time of release of market-related information.

Examples of material published on the website include statements of the Reserve Bank's assets and liabilities (updated weekly) and videos about various topics, including the Bank's role and functions, the framework for monetary policy and the Bank's business liaison program.

Enhancing the effectiveness of performance documentation

The Reserve Bank has participated extensively in the consultation on the rule to introduce the requirement for corporate plans and annual performance statements (sections 16E and 16F of the *Public Governance, Performance and Accountability Rule 2014* - the Rule). That requirement will necessitate, in the case of the corporate plan, the preparation each year of another document by the Bank and, in the case of the annual performance statement, the addition each year of a new section in the Bank's 'main' Annual Report (starting with the 2016 Annual Report). Accordingly, the Reserve Bank is currently preparing its first corporate plan for publication by 31 August 2015. In doing so, the Bank strongly endorses the flexibility permitted under the Rule in relation to the content of a corporate plan. This flexibility is key to permitting an entity's corporate plan to be relevant to its purposes and operations and has been a theme emphasised consistently throughout the face-to-face consultation sessions with Department of Finance representatives that have been attended by the Bank during the development of the Rule and subsequently.

In the case of the Reserve Bank, having regard to its statutory purposes⁴, which are very broad, it is not a straightforward matter to set out what the Bank expects to achieve over the next year and the subsequent three years or the means of measuring those achievements (as required by the section of the Rule entitled 'Performance').⁵ In a number of areas the Bank considers that it would not be useful to assess performance through simple benchmarks. The Bank considers that it is more meaningful to

4 The Reserve Bank has six main purposes, being those relating to monetary policy, financial stability, financial market operations, payments (both as policymaker and owner/operator of infrastructure), Australian banknotes and its role as banker to the Commonwealth.

5 Matters to be included in this section are: 'For each reporting period covered by the plan, a summary of:

- (a) how the entity will achieve the entity's purposes; and
- (b) how any subsidiary of the entity will contribute to achieving the entity's purposes; and
- (c) how the entity's performance will be measured and assessed in achieving the entity's purposes, including any measures, targets and assessments that will be used to measure and assess the entity's performance for the purposes of preparing the entity's annual performance statements for the reporting period.'

assess its performance holistically, as is currently done on a daily basis by the media and the financial markets. At best, the Bank considers that strict compliance with these requirements of the Rule would add only marginally to the ability of Parliament and the public to assess the Bank's performance. At worst, the Bank considers that literal compliance with these requirements of the Rule would give rise to a serious risk of an artificially negative understanding of its performance.

Having regard to these considerations, the Reserve Bank wishes to emphasise to the Committee the need for flexibility in the application of the Rule to entities' corporate plans.

The Resource Management Guide that provides guidance on the preparation of corporate plans (RMG 132) recognises this point when it notes in clause 8 that the 'requirements for corporate plans are designed to allow each entity to present planning information at the level of detail it believes will best inform the reader of the results the entity intends to achieve over the term of the plan'.

Enhancing the effectiveness of the Rule

In light of its extensive program of reporting and communication with the Parliament and the public, the Reserve Bank does not view the performance statement in the way described in the Resource Management Guide that provides guidance on performance statements (RMG 134) as providing 'comprehensive ... information that provides a ... complete picture of how an entity has performed' (clause 14).

For that reason, the Reserve Bank considers that the part of the Rule that relates to annual performance statements should be amended. Specifically, the Bank submits that item 1(c) of s16F of the Rule should ideally be deleted or, if not deleted, amended.

Item 1(c) requires each annual performance statement to include a statement that, in the opinion of the accountable authority of the relevant entity, the performance statement:

- accurately presents the entity's performance in the reporting period; and
- complies with s39(2) of the PGPA Act.

In the Reserve Bank's view, it should be sufficient for the accountable authority to identify the relevant reporting period to which the performance statement relates (paragraph (b) of item 1) and to state that the performance statement is prepared for s39(1)(a) of the PGPA Act (paragraph (a) of item 1). This approach would be consistent with that for corporate plans under item 1 of the table in s16E of the Rule.

The effect of the statement in paragraph (a) of item 1 is that the performance statement is identified both for the purposes of s39(1)(a) and s39(1)(b) of the PGPA Act. Through that means it is clear that the performance statement must comply with s16F of the Rule, as that is the effect of s39(2) of the PGPA Act. Therefore there is no need, in the performance statement itself, to state that the performance statement complies with s39(2) of the PGPA Act.

Furthermore, the Reserve Bank considers that requiring the accountable authority to opine that the performance statement 'accurately presents the entity's performance' is unnecessarily prescriptive and potentially misleading, through the use of the term 'accurately present'. The Bank is not aware of any consultation on this requirement prior to its introduction and was surprised at its introduction late in the course of development of s16F of the Rule. We note that s39(2)(a) of the PGPA Act merely requires a performance statement to 'provide information about the entity's performance in

achieving its purposes'. This prescription recognises that an entity's performance will be presented in numerous ways, i.e. a performance statement is simply one, new way of contributing to the information about its performance, but will not necessarily replace all of the existing means of doing so, for example, through the other contents of its annual report and its other publications and communications.

The essential component of a performance statement is the results section referred to in item 3 of s16F of the Rule which, on the basis set out in the entity's corporate plan, assesses the entity's performance in achieving its purposes (which purposes are also set out in the plan). In other words, the corporate plan and the performance statement are very much 'companion' documents.

In that sense, the performance statement supplements all of the other (existing) documents that set out an entity's performance more broadly (primarily, in the case of the Reserve Bank, as noted above, its 'main' Annual Report, the Payments System Board's Annual Report and other documents such as its regular *Statement on Monetary Policy* and *Financial Stability Review*).

For that reason the Reserve Bank does not consider it appropriate to describe a performance statement as 'accurately presenting' the Bank's performance. To the extent that it does set out the Bank's performance, the performance statement will be accurate, but the performance statement will not cover all aspects of the Bank's performance. The performance statement will cover only limited aspects of the Bank's performance: namely, its performance, at a high level, in achieving its purposes, as set out in its corporate plan. The Bank believes that the phrase 'accurately present' implies coverage of all aspects of an entity's performance. It therefore considers that the use of the phrase to describe the performance statement is inappropriate. Requiring the accountable authority to certify 'accurate presentation' compounds the issue and would provide little, if any, benefit to users of the performance statement.

The Reserve Bank notes that the November 2014 draft of the Resource Management Guide that provides an overview of the entire performance framework (RMG 124) referred to the performance statement as a 'summary of the entity's performance, focusing on its main priorities or critical factors that affect achievement of its published objectives' and refers to the annual report as continuing 'to be the main document through which an entity reports ... on actual performance' (pp8,9). The Bank agrees with these statements in RMG 124.

Furthermore, RMG 124 specifically acknowledged the key continuing role of an entity's annual report (clause 15), stating that the 'annual report continues to be the main document through which an entity reports (to its responsible Minister) on actual performance'. In the Bank's view, this statement is consistent with both s46 of the PGPA Act and the Rule.

The updated version of RMG 124, RMG 130 (which was first released in March 2015), contains what appears to be a fundamentally different approach to annual reports. In clause 15, it is stated that the 'annual performance statements will replace the report on performance section in annual reports'⁶. This important change has been accompanied by a subtle shift in the description of the function of the annual report, away from the statement above that it is the main document through which an entity reports on actual performance (in RMG 124, above), to being 'the primary document through which

6 The Bank, as an entity formerly subject to the *Commonwealth Authorities and Companies Act 1997*, was required under the Finance Minister's Orders to include a report of operations in accordance with those Orders in its Annual Report. We interpret the reference in RMG 130 to a 'report on performance' as being a reference to this report of operations.

responsible Ministers report to the parliament on the actual performance of entities' (clause 19 of RMG 130 – emphasis added).

The Reserve Bank appreciates that work is continuing on the rules and guidance on the preparation of annual reports under the enhanced performance framework. Nevertheless, it wishes to emphasise the need for entities to have clarity about the relationship between the section of the annual report that is the performance statement and the remaining non-financial contents of the annual report.

As the Reserve Bank understands it, the annual performance statement's essential function is to report on the extent to which an entity has achieved its main goals, as set out in its corporate plan. In other words, the content (and therefore function) of a performance statement is entirely derived from the contents of the entity's corporate plan. If the corporate plan sets out what, in relation to its purposes, an entity expects to achieve in a reporting period (as required by the Rule), its performance statement must set out the extent to which it achieved those purposes in that period.

The direct connection between an entity's purposes and the contents of its performance statement is recognised in many places in RMG 134. In particular, we note clauses 3, 11, 12, 14, 28 and 29. There are also such references in RMG 130 (clauses 8 and 16) and RMG 132 (clause 6).

The Bank currently expects its Annual Reports to contain a great deal more non-financial information than that contained in its performance statements.

Finally, in relation to the Payments System Board's Annual Report, the Reserve Bank envisages the performance statement containing a cross-reference to the Annual Report which notes that detail on the achievement of the payments policy objectives of the Bank may be found in the Annual Report. Subject to the views of the Department of Finance, which the Bank has invited, the Bank does not propose duplicating any of the contents of the Payments System Board's Annual Report in its performance statement.

If, despite the serious reservations expressed above in relation to item 1(c) of s16F of the Rule, it is not deleted, the Reserve Bank submits that item 1(c) should be amended to require the accountable authority to opine that the performance statement 'fairly presents a summary of the entity's performance in achieving its purposes in the reporting period'. If the Rule were to be amended in this manner, the opinion would explicitly recognise the inherent limitations of a performance statement, as being a description of performance derived from the preceding corporate plan and made in the context of other performance information released by the entity, and use language consistent with that in attestations of financial statements.

Reserve Bank of Australia
1 May 2015