

# Management of the Reserve Bank

This chapter outlines the management structure of the Reserve Bank and describes the Bank's approach to managing its finances, technology, data and facilities. The subsequent chapters provide further detail on the Bank's people, risk management and earnings. The Bank is managed by the Governor, with assistance from the Executive Committee and the Risk Management Committee. The Bank is committed to the prudent management of its finances and the efficient functioning of its systems and facilities. It maintains a strong focus on cost control in discharging its key policy and operational responsibilities, and continues to invest in the information technology, data and facilities that are essential for the Bank to achieve its objectives. During 2018/19, some of the new capabilities delivered through strategic projects transitioned into business-as-usual information technology operations.

## Management Structure

Under the *Reserve Bank Act 1959*, the Bank is managed by the Governor, who is assisted in fulfilling his responsibilities by two key management committees, the Executive Committee and the Risk Management Committee.

The Executive Committee is the key management committee of the Reserve Bank for matters of strategic or Bank-wide significance. Its role is to assist and support the Governor in fulfilling his responsibilities to manage the Bank. The committee, which is chaired by the Governor and includes the Deputy Governor and the Assistant Governors, generally meets weekly. Department heads and other senior executives attend meetings of the Executive Committee when required to provide specialist advice.

The Risk Management Committee has responsibility for ensuring that operational and financial risks are identified, assessed and

properly managed across the Reserve Bank in accordance with its Risk Management Policy. It is a management committee chaired by the Deputy Governor and comprises senior executives drawn mainly from the operational areas of the Bank. During 2018/19, the Risk Management Committee met on seven occasions and kept the Executive Committee and Reserve Bank Board Audit Committee informed of its activities. Details of the Bank's risk management framework are provided in the chapter on 'Risk Management'.

## Financial Management

The Reserve Bank maintains a strong commitment to financial management. The Bank seeks to ensure that its key policy and operational objectives are met, while maintaining a strong focus on cost control. In particular, the Bank seeks to achieve value for money from all spending, and to manage its staffing levels carefully. A key component of this accountability

is the Reserve Bank's budget, which covers the resourcing and expenditure plans for the financial year. The Executive Committee supports the Governor in overseeing the Bank's budget.

The Reserve Bank has an Investment Committee, which oversees the Bank's portfolio of project work within an agreed pool of funding. The Chair of this committee is the Deputy Governor. The Investment Committee ensures spending is directed to those projects that support the Bank's strategy and generate the most effective outcomes. There is a robust project governance framework, which includes the submission and approval of detailed business cases, and regular reporting to the Bank's senior executive on the progress of projects and the management of project-related risks.

Assistant Governors and Department Heads are responsible for managing expenditure within their approved budgets, with support provided by the Reserve Bank's Finance Department, which reviews and monitors financial performance relative to approved budgets on a monthly basis. Performance against the budget, including a forward-looking view of the likely full-year outcome, is formally presented to the Executive Committee on a quarterly basis. The Bank undertakes two formal forecasts during the year, which are presented to the Executive Committee in a timeframe that allows the committee to make decisions around the prioritisation of work, where it is appropriate to do so. Financial management is also supported by the Bank's expenditure and payment approval policy and processes, which ensure sufficient oversight over spending. Material spending and commitments are approved by appropriately senior staff.

The Reserve Bank's costs arise from its activities associated with its key policy and operational responsibilities, and from its investment in strategic projects to support these

responsibilities. Where appropriate, the Bank seeks to recoup operating costs associated with many of its operational responsibilities through fees and charges. These responsibilities include the transactional banking services provided to its clients and for use of payment systems run by the Bank (such as the Reserve Bank Information and Transfer System (RITS) and the Fast Settlement Service (FSS)). The Bank earned fee income of \$368 million in 2018/19 from the provision of the Committed Liquidity Facility to eligible authorised deposit-taking institutions. Operating costs associated with the production, issuance and management of Australia's banknotes are indirectly funded by net interest income (reflecting that holders of 'banknotes on issue' are not paid interest, while the Bank earns interest on the corresponding assets it holds). Further details on these services are provided in the chapters on 'Banking and Payment Services', 'Banknotes' and 'Operations in Financial Markets'. Earnings arising from the Bank's investments in financial markets are also detailed in the chapter on 'Earnings, Distribution and Capital'.

The Reserve Bank's general operating costs (excluding depreciation) were in line with its budget for 2018/19, at \$317 million. This was an increase of 2.8 per cent on the previous year, largely owing to costs associated with operationalising the strategic payments, banking and banknote-related initiatives delivered over recent years, namely the New Payments Platform (NPP) and FSS (see commentary on Technology below), and the National Banknote Site (NBS). Over recent years, there has been very little growth in the operating costs associated with the Bank's policy functions.

Staff costs are the largest component of the Bank's general operating costs. Growth in this area was 1.9 per cent in 2018/19, reflecting the base salary increase in the Reserve Bank's

Workplace Agreement and little change in the average number of staff during the year. There was a reduction in project staff following the completion and winding down of some major projects that had been under way over recent years. The Bank has also been controlling and prioritising ongoing investment in the Bank's assets and the associated resourcing needed to deliver this. The Bank hired additional staff required to support and effectively operate new technologies and facilities. As a result, staff numbers were a little higher at 30 June 2019 than a year earlier (for more detail, see the chapter on 'Our People'). Managing staffing numbers continues to be an area of focus for the Bank, to ensure that levels remain appropriate to support its core operations. This includes the delivery of new banking and payment systems and services, which will require additional staff to support those services to agreed performance and availability standards. At the same time, the Bank has been seeking to ensure that overall staffing numbers are contained at current levels or lower.

Technology costs rose by 11.3 per cent in 2018/19, reflecting an increase in licensing, maintenance and vendor support costs associated mainly with the delivery of the new strategic initiatives that underpin the Bank's enhanced payments and banking infrastructure. The high standards of availability for these systems, especially FSS (99.995 per cent availability) and RITS (99.95 per cent availability), has required a substantial uplift in technology infrastructure and licences, and ongoing maintenance and updates to these systems. The growing complexity of these systems has also required more specialist vendor support to be procured. Costs associated with further enhancing the overall resilience and performance of these key technology assets also contributed, as did ongoing investment to strengthen further the Bank's cyber security capabilities.

Premises costs were little changed, as the effect on costs from operating the NBS, located at Craigieburn in Victoria, for the full financial year were largely offset by the Reserve Bank's

### General Operating Costs<sup>(a)</sup> \$ million

|  | 2014/15      | 2015/16      | 2016/17      | 2017/18      | 2018/19      |
|--|--------------|--------------|--------------|--------------|--------------|
| Staff costs  | 195.3        | 212.6        | 216.2        | 223.6        | 227.9        |
| Technology costs   | 18.8         | 22.3         | 28.8         | 31.2         | 34.8         |
| Premises costs   | 21.6         | 20.8         | 24.4         | 25.0         | 24.8         |
| Other costs  | 24.6         | 28.1         | 34.7         | 28.6         | 29.5         |
| <b>General operating costs (excl. depreciation)</b>      | <b>260.2</b> | <b>283.8</b> | <b>304.1</b> | <b>308.4</b> | <b>317.0</b> |
| Depreciation   | 23.4         | 25.6         | 38.4         | 51.7         | 56.2         |
| <b>General operating costs</b>                           | <b>283.6</b> | <b>309.4</b> | <b>342.5</b> | <b>360.1</b> | <b>373.2</b> |
| Of which: Cost of projects                               | 26.6         | 33.7         | 43.5         | 35.1         | 23.2         |
| <b>General operating costs by function<sup>(b)</sup></b> |              |              |              |              |              |
| Policy   | 75.5         | 79.6         | 80.8         | 80.8         | 82.6         |
| Business Services  | 54.1         | 61.6         | 80.2         | 95.8         | 100.1        |
| Executive and Corporate Support                          | 154.0        | 168.2        | 181.5        | 183.4        | 190.5        |

(a) Excluding NPA and banknote management expenses, and costs directly linked with transaction-based revenue. Some prior period costs have been reclassified to align with the current basis of presentation.

(b) Costs by function shown above are on a direct rather than an allocated cost basis.

Source: RBA

## Capital Expenditure<sup>(a)</sup>

\$ million

|   | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|---|---------|---------|---------|---------|---------|
| Capital Costs                                   | 56.5    | 108.1   | 100.7   | 45.7    | 36.5    |
| Of which: Cost of major projects <sup>(b)</sup> | 42.9    | 92.8    | 85.8    | 39.5    | 31.7    |

(a) Excluding NPA

(b) Projects on the Enterprise Master Schedule

Source: RBA

divestment of its office building in Melbourne, which resulted in lower expenditure for the operation of this facility in 2018/19.

The delivery of the new initiatives has led to a notable rise in depreciation, which rose by a further 8.7 per cent in 2018/19. General operating costs, including depreciation, increased by 3.7 per cent in 2018/19 (compared with 5.1 per cent in 2017/18).

Total project-related operating costs declined further during 2018/19, mainly reflecting the completion of a number of strategic initiatives in previous years. The extent of the Reserve Bank's investment during that period is reflected in its capital expenditure, which has also declined over more recent years.

The Reserve Bank has an ongoing program of investment to maintain the value of its buildings and technology assets, to ensure that services remain effective and resilient and that the associated risks are managed appropriately. Investment is also made in projects that support new capabilities and services, and those that seek to produce greater operational efficiencies. Investment in the near term will focus on refreshing existing assets, including substantial upgrades to the Bank's Head Office in Sydney and its training facility in Kirribilli, and technology infrastructure. Investment is also being undertaken to improve the efficiency and effectiveness of the Bank's data management practices and further modernise the Bank's internal systems and processes, especially those supporting staff.

The Reserve Bank engages consultants from time to time where it lacks specialist expertise or if 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. Before 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. The increase in spending in 2018/19 was driven by work on improving the Bank's data management practices and a review of the technology needed to support the Human Resources Department. As in previous years, there were also consultancies to support the upgrade of Australia's banknotes and banknote-related infrastructure.

### Spending on Consultancies<sup>(a)</sup>

\$

|         |           |
|---------|-----------|
| 2011/12 | 535,000   |
| 2012/13 | 1,190,000 |
| 2013/14 | 387,000   |
| 2014/15 | 773,000   |
| 2015/16 | 622,520   |
| 2016/17 | 987,388   |
| 2017/18 | 596,157   |
| 2018/19 | 1,113,425 |

(a) Sum of individual consultancies that cost \$10,000 or more  
Source: RBA

## Technology

Information Technology (IT) systems and infrastructure play a key role in the Reserve Bank's ongoing operations and forms a major component of most of the Bank's strategic projects. The technology environment comprises more than 200 business applications, two highly available data centres and a highly resilient network infrastructure across multiple Bank sites.

Major technology-related projects completed in 2018/19 included the establishment of operational real-time integration services into the NPP for government agencies. In particular, services were added that allow the Reserve Bank's government agency customers to access NPP payments directly from agency systems, allowing payments to occur in near real-time. This is important new functionality that will enable faster payment of disaster relief and payments to people in personal crisis situations.

Work to replace the Reserve Bank's core transactional banking systems continued through the year and was completed in July 2019. This work ensures that the Bank's banking applications run on modern business technology and are capable of meeting the banking needs of Australian government agencies.

Significant progress has also been made in modernising key aspects of the Reserve Bank's technology capabilities, including its network and banking systems infrastructure. These investments are designed to ensure that the Bank's applications run on modern networks with appropriate performance and security capabilities. The Bank upgraded its desktop computer systems to the current Microsoft Windows 10 operating platform, which ensures that the Bank's desktop systems run on the most secure version of Windows and remain compatible with modern business applications.

Cyber security continues to be a key focus for the Reserve Bank. Significant resources were applied in 2018/19 to continue to strengthen the Bank's cyber security capabilities. The Bank has been independently certified as mature in terms of its application of the cyber security strategies recommended by the Australian Signals Directorate for containing cyber threats, and will continue to build on its security controls as these strategies and standards evolve. The Bank has also attained certification of its internet gateway to the ISO 27001 global standard for Information Security Management. Significant effort has gone into ensuring the Bank's systems, testing and technology operations are adopting appropriate security controls and monitoring. Ongoing threat monitoring and vulnerability assessments inform continuous security improvements, along with information-sharing with industry partners and agencies.

With the majority of the significant IT projects undertaken over recent years now complete, the IT function continues its transition to steady-state operations. This transition has involved an uplift of support and maintenance capacity to accommodate the experience of the first full year of operations for the FSS and NPP, and the ongoing pursuit of strategies to ensure IT assets are highly resilient, fit for purpose, appropriately innovative and support workplace efficiency. In 2018/19, this included the establishment of an Innovation Lab to assess the impact of emerging technologies on the Reserve Bank's policy and operational areas, as well as implementing new capabilities in the areas of cloud computing, enterprise collaboration, enhanced integration and data analysis.

## Data

In 2018/19, the Reserve Bank established an Enterprise Data Office (EDO), which is responsible

for the management and governance of the Bank's data as an asset in an external environment that is complex, data rich and rapidly changing. The objective of the EDO is to manage data risk, optimise the Bank's data management activities to create more capacity for data analysis, and enhance analytical activity through the provision of better tools and methods, including use of 'Big Data' and artificial intelligence.

In addition to resolving various short-term issues and 'pain points' related to data use, the EDO has responsibility for the long-term development and maintenance of the Reserve Bank's systems, processes and capabilities for working with data. This includes defining appropriate data-related roles and responsibilities, embedding best practices in working with the diverse range of data sets across the Bank, and overseeing the further development and consolidation of the Bank's technology for storing, processing and analysing data.

## Facilities

The Reserve Bank owns premises in locations where there is a business need to do so. The Bank's facilities include the Head Office in Sydney; the H. C. Coombs Centre for Financial Studies in Kirribilli, Sydney; an office building in Canberra; the note-printing facility and NBS at Craigieburn, in the north of Melbourne; and the Business Resumption Site in north-west Sydney. In 2018/19, the Bank sold its office building in Collins Street, Melbourne; this facility had been used for the storage and distribution of banknotes and was no longer required following the completion of the NBS. In addition to the buildings it owns, the Bank leases accommodation for its State Offices in Adelaide, Brisbane and Perth and for its offices in London, New York and Beijing. Independent valuers estimated the value of the Bank's domestic property assets in 2018/19

at \$513.8 million. The total value of the Bank's property assets declined as a result of the sale of the Melbourne building, although the value of the remainder of the portfolio has increased on a like-for-like basis by \$27.4 million, reflecting higher property values in Sydney.

Office space in the Reserve Bank's properties that is not required for the Bank's own business purposes is leased to external tenants. Net income from these leases amounted to \$7 million in 2018/19, compared with \$12.3 million in the previous year. The reduction is a result of the sale of the Melbourne building in October 2018, which had a large number of external tenants.

During the year in review, as a result of the sale of the building in Collins Street, Melbourne, the Reserve Bank leased premises in Melbourne to accommodate its Victorian State Office, and undertook a new fit-out. Other major projects include planning for significant building works at its Head Office and the H. C. Coombs Centre for Financial Studies. These works will upgrade base building infrastructure that is at end of life and ensure a safe, efficient and effective workplace to meet the long-term needs of the Bank, while preserving heritage features. There was significant progress with a major upgrade to the electrical infrastructure at the Bank's Head Office and Business Resumption Site, which will be completed later in 2019. The upgrade will provide greater resilience for banking and payments operations.