

# **Review of the Reserve Bank Act**

## **Release Document – Draft Cabinet Paper for Consultation: Reserve Bank (Monetary Policy) Amendment Bill**

**July 2018**

**<https://treasury.govt.nz/publications/information-release/phase-1-reviewing-reserve-bank-act>**

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- [1] 9(2)(a) - to protect the privacy of natural persons, including that of deceased natural persons.
- [2] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage.
- [3] 9(2)(g)(i) - maintain the effective conduct of public affairs through – the free and frank expression of opinions by or between or to Ministers of the Crown or members of an organisation or officers and employees of any department or organisation in the course of their duty.
- [4] 9(2)(f)(iv) - maintain the constitutional conventions for the time being which protect the confidentiality of advice tendered by Ministers of the Crown and officials.

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**Treasury Report: Draft Cabinet Paper for Consultation: Reserve Bank  
(Monetary Policy) Amendment Bill**

<b>Date:</b>	14 June 2018	<b>Report No:</b>	T2018/1626
		<b>File Number:</b>	MC-1-7-6

**Action Sought**

	<b>Action Sought</b>	<b>Deadline</b>
Minister of Finance (Hon Grant Robertson)	<p><b>Consult</b> your colleagues about the draft Cabinet paper and Bill before it is lodged.</p> <p>Subject to any changes following consultation and peer-review of the Bill, <b>approve</b> lodging the Cabinet paper and Bill with Cabinet Office.</p>	Wednesday 27 June 2018

**Contact for Telephone Discussion (if required)**

<b>Name</b>	<b>Position</b>	<b>Telephone</b>		<b>1st Contact</b>
Ben Gaukrodger	Senior Analyst, Macroeconomic and Fiscal Policy	[2]	(wk)	[1] (mob) ✓
Renee Philip	Manager, Macroeconomic and Fiscal Policy	[2]	(wk)	[1] (mob)

**Actions for the Minister's Office Staff (if required)**

**Advise** the Treasury of any changes required to the draft Cabinet paper following Ministerial consultation.  
**Return** the signed report to Treasury.

Note any feedback on the quality of the report

**Enclosure:** Yes (attached)

# Treasury Report: Draft Cabinet Paper for Consultation: Reserve Bank (Monetary Policy) Amendment Bill

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## Purpose of Report

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1. The draft Reserve Bank of New Zealand (Monetary Policy) Amendment Bill 2018 (the Bill) is enclosed with this report for your review. Also attached is a draft paper for the Cabinet Legislation Committee (LEG), which seeks Cabinet's agreement to introduce the Bill. These documents have been provided to enable you to undertake pre-Cabinet consultation with your colleagues.
2. This report also seeks your approval to lodge the Bill and Cabinet paper with the Cabinet Office, subject to any changes arising from consultation or from the ongoing peer-review of the Bill.

## Background

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3. We reported to you on 7 June with a first draft of the LEG paper for comment (T2018/1557 refers). The LEG paper attached has been revised to reflect your comments, but remains a draft pending changes from the pre-Cabinet consultation process. Furthermore, departmental consultation, the regulatory impact analysis process, and Bill of Rights Act (BORA) vetting are all ongoing. Accordingly, the Cabinet paper may need to change to reflect comments and issues arising from those processes.
4. The draft Bill is enclosed for your review for the first time. The Bill has been drafted by the Parliamentary Counsel Office (PCO) based on instructions from the Treasury. The Reserve Bank has been involved throughout the drafting process. As an amendment Bill, it is necessary to consider the Bill alongside the current Reserve Bank of New Zealand Act 1989 (the Act). Two hard copies of the Act will be provided to your office for this purpose.
5. The Bill provides for all of the policy issues that have been decided by Ministers and Cabinet to date, which has been the focus in the compressed timeframes available for drafting. However, the overall effect is a Bill that is quite prescriptive. The level of prescription has been raised as a concern by both PCO and the Reserve Bank, on the basis that it is both unnecessary and risks reducing flexibility for the Reserve Bank. We agree that this is a risk, and we are now considering options to simplify the Bill to make it less prescriptive before it is lodged with Cabinet Office on 28 June. PCO's peer-review and proofreading processes will also run in parallel with pre-Cabinet consultation. The final version of the Bill will therefore differ from the enclosed Bill.
6. While we intend to make changes to the Bill between now and 28 June, there is a risk that the Bill will remain more prescriptive than the Reserve Bank considers appropriate, which the Reserve Bank may raise during the select committee stages.

## Consultation with Associate Finance Ministers

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7. To facilitate pre-Cabinet consultation, Annex One of this report includes a short overview of the key elements of the Bill. The Cabinet paper also elaborates on the key detailed decisions that have been taken by Finance Ministers since Cabinet made high-level policy decisions in March (CAB-18-MIN-0086 refers).

8. When undertaking consultation, we also recommend that you consult the Associate Finance Ministers (Hon Parker, Hon Jones and Hon Shaw) about two specific (and related) matters in the Bill.

[3]

10. The second matter (covered in the Bill in clause 7 of schedule 1 on transitional, savings and related provisions) is the process that will apply if the initial Charter cannot be agreed. We consider it highly unlikely that you will be unable to agree an initial Charter, and we understand the Governor is committed to ensuring agreement is reached. However, the legislation includes a provision that gives the Minister the power to set the initial Charter by OIC if agreement cannot be reached 42 days prior to commencement. This mechanism ensures that a Charter will be in place before commencement.
11. You decided to include this provision in the Act after we advised you on the matter at the same time we provided you the first draft of the Cabinet paper (paragraphs 9-13 and recommendation c of T2018/1557 refers). The condensed timeframe for finalising the Bill has meant that the Associate Finance Ministers have not yet been consulted on this matter. However, given that Cabinet has delegated authority to Finance Ministers (you, Hon Parker, Hon Jones and Hon Shaw) to take detailed decisions on the legislative drafting, we recommend that you consult the Associate Finance Ministers on this provision at the same time that you consult them on the Cabinet paper.

## Next Steps

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12. The Cabinet paper and Bill need to be lodged for submission to LEG by 10am on 28 June. Before it is lodged we will update the Cabinet paper for any changes that arise from your consultation process, and to reflect any feedback from departmental consultation, the regulatory impact assessment or BORA vetting. As noted above, the Bill that is lodged will also likely differ from the version enclosed, reflecting edits from peer review and proofreading. We will liaise with your office to ensure you are properly informed of any changes to either the Bill or the Cabinet paper before they are lodged.
13. The Treasury is also responsible for preparing two technical documents that need to be lodged with Cabinet Office alongside the Cabinet paper and Bill. They are a Regulatory Impact Statement (RIS) and Departmental Disclosure Statement (DDS). We are currently finalising these documents, and we will provide them to your office for review and comment next week before they are lodged.
14. As noted in our previous advice (T2018/1557 refers), we are planning a proactive release of information about the Bill to follow introduction of the Bill. Officials will report to you separately on the process and materials to be released, but the draft LEG paper notes the proposed proactive release.
15. The LEG paper includes the following process and timetabling matters that have been determined to allow for the Bill to be passed this year <sup>[4]</sup>

[4]

. It is intended that the Bill be approved by LEG

on 5 July 2018, by Cabinet on 9 July 2018, and by Government Caucuses on 10 July 2018 (as appropriate). Providing this timetable is met, it is proposed that the Bill (subject to the agreement of the Leader of the House, where required):

- is introduced into the House by Friday 20 July 2018 and has its first reading on Thursday 26 July 2018;
- is referred to the Finance and Expenditure select committee for consideration for a shortened four month period;
- is reported back by the Finance and Expenditure select committee by Thursday 29 November 2018;
- has its second reading on Thursday 6 December 2018, committee of the whole House on Tuesday 11 December 2018, and its third reading on Wednesday 12 December 2018 (the second-to-last sitting day);
- is enacted and receives Royal assent in late December 2018 or early January 2019, and;
- comes into force on 1 April 2019 (which provides for a three month transition period).

16. When conducting your pre-Cabinet consultation, your Office may wish to consult with the Office of the Leader of the House to ensure this timetable can be met.

## Recommended Action

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We recommend that you:

- a **consult** with your colleagues about the enclosed draft Cabinet paper and Bill;
- b **approve** the lodgement of the Cabinet paper and Bill, subject to any changes arising from the pre-Cabinet consultation processes, and peer-review and proofreading of the Bill.

*Approved/not approved.*

Renee Philip  
**Manager**

Hon Grant Robertson  
**Minister of Finance**

## Annex One: Summary of the Key Provisions in the Reserve Bank of New Zealand (Monetary Policy) Amendment Bill 2018

The Reserve Bank of New Zealand (Monetary Policy) Amendment Bill 2018 (the Bill) makes two key changes to the Reserve Bank of New Zealand Act 1989 (the Act). They are:

- Changing the monetary policy objectives to include supporting maximum sustainable employment alongside price stability as an objective of monetary policy.
- Requiring that monetary policy decisions be made by a Monetary Policy Committee (MPC) rather than by the Reserve Bank Governor (the Governor).

The key provisions in the Bill that give effect to these changes are explained below.

### Monetary Policy Objectives

Issue	Description of change	Relevant section of the Bill <sup>1</sup>
Purpose	The purpose statement has been changed to reflect that the Act aims to promote the prosperity and wellbeing of New Zealanders, contributing to a sustainable and productive economy.	s1A
Objectives	The objectives have been changed to focus on: (a) achieving and maintaining stability in the general level of prices over the medium term; and (b) supporting maximum sustainable employment.	s8
Different economic objective	The Governor-General retains the power to issue an Order in Council that directs the Bank to formulate monetary policy for different economic objectives than specified in the Act, for a period of up to 12 months.	ss13-15A
Remit	The operational objectives for monetary policy will no longer be set through the Policy Targets Agreement (PTA) agreed between the Minister of Finance and the Governor. Instead, the Minister of Finance will set the operational objectives through a <i>Remit for the Monetary Policy Committee</i> , after receiving advice from the Bank.	s10 and schedule 2 clauses 2-7
Monetary Policy Reports	The Bank must provide reports on monetary policy, similar to the Monetary Policy Statement, at least 4 times per year. This is consistent with existing practice. The Bank also has a new requirement to issue a report at least every 5 years that reviews past monetary policy performance. Further detail about reporting requirements can be set by the Charter (including requiring reports to be provided more frequently).	ss15C-15D

### Monetary Policy Committee

Issue	Description of change	Relevant section of the Bill
MPC function	The MPC is responsible for formulating monetary policy, which covers all substantive monetary policy decisions at the Bank. The Governor is responsible for implementing those decisions.	ss8-9 and s63B
Membership	The MPC will have 5-7 members. The Governor and Deputy Governor are <i>ex-officio</i> members, and 1 or 2 other members will be appointed from within the Bank. Either 2 or 3 members will be external members from outside the Bank. The external members will be in the minority on the MPC. The Governor is also Chair of the MPC.	s63C and schedule 2 clause 27
Appointments and term lengths	All members of the MPC are appointed by the Minister of Finance on the recommendation of the Reserve Bank Board. The Board must consult the Governor before making a recommendation about the Deputy Governor and the other internal members. All internal members serve 5 year terms, which can be renewed once. External members serve 4 year terms, which can be renewed once. Initial terms will be staggered.	ss40-45A. and schedule 2 clauses 8-15

<sup>1</sup> Schedule 1 refers to the new schedule on transitional, savings and related provisions on pages 25-28 of the Bill. Schedule 2 refers to the new schedule on the remit and the MPC on pages 28-43 of the Bill.

Treasury observer	The MPC will also include a Treasury observer that may attend meetings but has no right to vote on decisions.	Schedule 2 clauses 23-26
Members' duties and dismissal	The Bill sets duties for the members of the MPC (including the Governor and Deputy Governor), with dismissal possible where members do not fulfil their duties. Duties are both individual (for example, members must act with reasonable care, diligence and skill) and collective (for example, the MPC must formulate policy in a manner that is consistent with the Act and the remit, and must comply with the Charter). The Governor and Deputy Governor can also be removed from office for failure to comply with the responsibilities of these roles. These grounds have been amended in light of the creation of the MPC – for example the Governor can no longer be removed from office for failing to achieve the policy targets as this is now a duty of the MPC. The Governor also has responsibilities as the Chair of the MPC.	ss49-50 and schedule 2 clauses 16-22 and 28-39
Decision-making	The Bill sets minimum decision-making rules, including that each member has 1 vote, and that in the event of a tied vote, the Chairperson has a casting vote. Further detail, such as whether decisions should be taken by vote or with consensus, can be set in the Charter. The Bill also sets rules for quorum and emergency procedures.	Schedule 2 clauses 40-45
Meeting record	The Bill requires the Bank to publish a record of each meeting of the MPC. The Charter sets requirements for the meeting records that the Bank must comply with. For example, the Charter could set guidelines or requirements for what information must be included or when the meeting record must be published.	s63E and schedule 2 clause 46
Charter	The Bill creates a Charter for the MPC, which will set out the detailed approach to transparency, accountability and decision-making, beyond what is provided for in the Act. The Charter will be agreed by the Minister and the MPC.	ss63C-63H
Code of conduct	The Bill creates a code of conduct that MPC members must follow, which will be prepared by the Reserve Bank and approved by the Board. The code of conduct must include rules for conflicts of interest and confidentiality.	ss63I-63K
The Reserve Bank Board	The Board's duty to keep the performance of the Governor under constant review is expanded to include the Deputy Governor, the other MPC members and the MPC itself. The Board also has a new duty to supply reports to the Minister as requested, and a new power to request information from the Bank to enable the Board to monitor performance.	ss53-53C
Board Chair and Deputy	The Bill gives the Minister the power to appoint the Chair and Deputy Chair of the Board. At present the Board elects its own Chair and Deputy.	s59A

### Transitional Provisions

Issue	Description of change	Relevant section of the Bill
Commencement	Commencement of the new economic objectives and decision-making processes is 3 months after Royal assent. Transitional provisions required to establish the new regime, such as those relating to the remit and the Charter, and appointments to the MPC, come into force the day after Royal assent, to enable the regime to be in force from the main commencement date.	s2
First remit and Charter	The Bill provides for the first remit and Charter to be set by agreement between the Minister and the Governor. If agreement cannot be reached in a reasonable period of time, the Governor-General may issue the first remit and/or Charter by Order in Council on the recommendation of the Minister.	Schedule 1 clauses 2-7