

# The Treasury

## Phase 1 RBNZ Act Review Information Release

April 2019

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Key to sections of the Act under which information has been withheld:

- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [2] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand
- [3] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [4] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [5] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
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**Treasury Report:** Treasury Report: External Monetary Policy Committee member appointment process and talking points for meeting with the Reserve Bank Board Chair

<b>Date:</b>	26 July 2018	<b>Report No:</b>	T2018/2023
		<b>File Number:</b>	MC-1-7-2

**Action Sought**

	<b>Action Sought</b>	<b>Deadline</b>
Minister of Finance (Hon Grant Robertson)	<b>Agree</b> to the recommendations in this report. <b>Refer</b> this report to the Associate Ministers of Finance (Hon Parker, Hon Jones, Hon Shaw) for their information.	Wednesday 1 August 2018

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

<b>Name</b>	<b>Position</b>	<b>Telephone</b>		<b>1st Contact</b>
Nathan Spence	Analyst, Macroeconomic and Fiscal Policy	[7]	[1]	✓
Renee Philip	Manager, Macroeconomic and Fiscal Policy	[7]	[1]	

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

**Return** the signed report to Treasury and provide feedback on the meeting for the letter of expectation  
Subject to the Minister of Finance's decisions, **refer** this report the Associate Ministers of Finance (Hon Parker, Hon Jones, Hon Shaw) for their information.

Note any feedback on the quality of the report

**Enclosure:** No

## **Treasury Report:** Treasury Report: External Monetary Policy Committee member appointment process and talking points for meeting with the Reserve Bank Board Chair

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### Purpose of Report

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1. **This report provides you with a detailed timeline of the Monetary Policy Committee (MPC) member appointment process to discuss at your meeting with Neil Quigley, the chair of the Reserve Bank Board, on Wednesday 1 August 2018.** This follows on from our report to you in March [T2018/1265] which outlined a process for appointing members.
2. **This report also provides advice on the daily fee level for the external MPC members for your feedback and agreement.** This follows on from our report to you in May [T2018/1036] where you agreed that the remuneration of external members of the MPC be set by the Minister of Finance, through the Cabinet appointments process.
3. **Lastly, Annex 1 provides suggested talking points for your meeting with Mr Quigley on Wednesday 1 August 2018.** The timeline and the recommended daily fee level have been shared with Mr Quigley.

### Decisions to date on the MPC appointment process

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4. On 19 March 2018, Cabinet agreed to amend the Reserve Bank of New Zealand Act 1989 (the Act) to establish a MPC for the formulation of monetary policy and to include sustainable employment in the Reserve Bank's monetary policy objective [CAB-18-MIN-0086 refers].
5. In the same paper Cabinet agreed that that the Minister of Finance (the Minister) will appoint all of the MPC members on the recommendation of the Reserve Bank Board (the Board). You indicated to Cabinet that it is your intention that the MPC will initially have seven members: the Governor; the Deputy Governor; two members from the Bank's staff; and three members external to the Bank.
6. In March, we provided a report that outlined a process for appointing members [T2018/1265]. In this report you agreed to send a letter of expectations to the Board, after your meeting with Mr Quigley that records your expectations for the appointment process.
7. In May you agreed to set the remuneration of external members of the MPC through the Cabinet appointments process [T2018/1036 refers]. Remuneration for internal MPC members will be set through separate processes.

### Timeline for the external MPC member appointment process

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8. Based on your decisions to date, table 1 provides a timetable for the external MPC appointment process ahead of the MPC becoming operational in April 2019. Mr Quigley may provide his own timeline in the meeting which will be more detailed as it outlines the steps the Bank needs to take, however the timelines are consistent. Parts

of the process agreed to in the meeting will be included in the letter of expectations sent to the Board.

9. Your three key points of engagement during the appointment process are:
  - 1) Sending a letter of expectations to the Board (early August),
  - 2) The Board Chair consults you on the shortlist (October), and
  - 3) Receiving multiple candidate recommendations from the Board (informally in November/December).

**Table 1:** External MPC appointment process

Date	Description
Wednesday, 1 August 2018	You meet with Neil Quigley, the Chair of the Reserve Bank Board to discuss the appointment process.
Early August	You send a letter to the Minister of State Services seeking his support for an exemption to the Cabinet fees framework (if you agree to the recommended daily fee level).
Late August	You send a letter of expectations outlining high-level expectations for the appointment process and feedback on the job description to the Board.
September 2018	RBNZ Board begins recruitment for external MPC members.
September 2018	You take a Cabinet paper to APH seeking agreement to MPC member fee levels.
October 2018	Shortlist of external MPC candidates discussed between the Board Chair and the Minister of Finance.
November/December 2018	Board makes informal recommendations for MPC members (internal and external) ahead of Royal assent of the Bill.
January 2019	After Royal assent of the Bill, the Board make formal recommendations for MPC members (internal and external)/
January 2019 (Assuming Royal assent of the Bill)	Cabinet paper taken to APH seeking agreement to the external MPC member appointments.
January/February 2019 (Assuming Royal assent of the Bill)	The Minister of Finance appoints external MPC members based on nominations from the Board.  We recommend coordinating the announcement of the internal and external members of the committee.
April 2019 (Assuming Royal assent of the Bill)	MPC operational.

#### *Appointment of internal members*

10. For the appointment of internal members we previously advised limiting ministerial engagement before a nomination to consultation about the position description and the general timing of the appointment process. We also advised that it is appropriate for the Board to recommend a single preferred candidate to the Minister.
11. As the internal members will be nominated from existing Reserve Bank staff the appointment process is shorter than the appointment process for external members. We recommend coordinating the announcement of the internal and external members of the MPC. This means seeking agreement to both the internal and external member appointments in a January Cabinet Appointment and Honours Committee (APH) paper.

12. We recommend discussing the timing for the internal member appointments with Mr Quigley when you meet on 1 August.

## Daily fee level for the external MPC members

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### *Work expectations of external MPC members*

13. The MPC will be responsible for the formulation of monetary policy. MPC members will be decision-makers, rather than advisors, exercising considerable powers that impact the wellbeing of all New Zealanders. The MPC will need to perform well as a team, which includes being able to debate different perspectives respectfully.
14. To meet the expectations of the role, MPC members will need a significant amount of experience in exercising sound judgement under high levels of uncertainty. Members will also need the ability to engage with complex economic issues and communicate their own views clearly and effectively. Members will likely have used their expertise at a very senior level in business, financial markets and/or as a publicly regarded leader in economics or public policy.
15. MPC members will be in the public eye, with decisions closely followed and scrutinised.
16. MPC members will also not be able to hold some potentially lucrative financial sector jobs due to potential conflicts of interest.

### *Remuneration to be set through the Cabinet fees framework*

17. The Cabinet fees framework (CO(12)6 refers) is the default fee setting mechanism for bodies in which the Crown has an interest and is used to set fees for a wide variety of positions across the public sector.
18. It is expected that MPC members will have approximately 50 days of work per year. 26 days will be meetings, with the remaining time split between meeting preparation, training and orientation, and in events and appearances related to their role. Given that the workload is difficult to predict<sup>1</sup> and that committee procedures, which determines the number of days, may change we consider a daily remuneration rate to be appropriate (consistent with CO(12)6 guidance).
19. The MPC falls under the Group 4, level 1 classification under the fees framework. Under this classification the maximum daily fee level for committee members is \$800. At this level we consider it very unlikely to attract individuals that can meet the expectations outlined above. We propose that an exemption is applied for in order to offer a daily fee higher than \$800.

### *Proposed fee level for external MPC members*

20. We recommend the daily fee for external MPC members be set at <sup>[5,6]</sup> (gross, but excluding travel and accommodation expenses).
21. This judgement is based on the expectations of the role and the daily fee level of similar roles in New Zealand and abroad (see table 2). We expect the role will be less public facing than the Bank of England equivalent but will require an equivalent level of

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<sup>1</sup> For example, the 50 day estimate assumes four monetary policy statements per year and three additional OCR decisions, but this may become more frequent over time.

experience and skills to the Commerce Commission Commissioners. As they will be decision makers with significant responsibilities, we also think that the MPC members should receive a higher daily fee than the current external Reserve Bank advisors.

22. The SSC have been consulted and notes that the proposed fees are above anything yet agreed to by the current Government – they advise that fees of <sup>[5, 6]</sup> would be more in line with others. They acknowledge that high fees may be required to secure the desired calibre of member.
23. The Reserve Bank have been consulted and are comfortable with a daily fee level of <sup>[5, 6]</sup> (gross).

**Table 2:** Daily fee levels for comparable roles to the MPC

Role	Description	Daily Fee
Commerce Commission Commissioners	<ul style="list-style-type: none"> <li>• The Commissioners enforce legislation that promotes competition and prohibits misleading conduct by traders.</li> <li>• The role requires significant competition knowledge and expertise.</li> <li>• There is widespread interest in their work.</li> </ul>	\$1,565  (Set by the Remuneration authority)
Existing external Reserve Bank monetary policy advisors	<ul style="list-style-type: none"> <li>• Provide advice to the Reserve Bank’s Governing Committee to inform the setting of the OCR.</li> <li>• The advisors are experienced and accomplished but are not monetary policy experts and are not responsible for decisions.</li> <li>• The role is not public facing and there is no scrutiny of their contribution.</li> </ul>	~\$1,500 <sup>2</sup>
Bank of England: Monetary Policy Committee (MPC) external member	<ul style="list-style-type: none"> <li>• The Bank of England MPC is responsible for formulating monetary policy.</li> <li>• The role requires strong and proven economic and analytical skills.</li> <li>• It is also high profile where decisions are communicated to the public.</li> </ul>	~\$1,900 <sup>3</sup>

*Fee levels for inquiries and other Group 4 level 1 bodies*

24. SSC has provided examples of exceptional fees that have been agreed by the Minister of State Services (MoSS) since October 2017 (table 3). For confidentiality reasons SSC has not provided detail of the Government inquiries and the Group 4 level 1 bodies. The bodies in table 3 are not directly comparable to the MPC, the two main reasons being:

- 1) The MPC is a decision-making body. The inquiry bodies provide advice to Ministers who ultimately make the decisions.

<sup>2</sup> Calculation based on \$35,000 per annum for 24 days attendance, plus preparation.

<sup>3</sup> Calculation based on £151,179 (295,000 NZD) per annum for three days a week work (156 days total per year).

- 2) The MPC is a collective decision-making body where members have equal say, therefore the externals should have equal status on the MPC as the Governor.
25. However, we think this is relevant information as it provides a sense of what fees have recently been agreed to. While there is no precedent for the MPC, a daily fee of [4,5,6] is not unprecedented. For example the previous Government agreed to fees of [4,5,6] for the Chair and [4,5,6] for members for a Group 4, level 1 body.

**Table 3:** Exceptional fees that have been agreed by the Minister of State Services since October 2017

	Chair's fee	Member's fee
Government Inquiries	[4,5,6]	[4,5,6]
(Three inquiries that have been set up by the Government, where exceptions to the fees framework have been agreed to)	[4,5,6]	[4,5,6]
	[4,5,6]	[4,5,6]
	[4,5,6]	[4,5,6]
Group 4 level 1 bodies	[4,5,6]	[4,5,6]
(Two examples of where exceptions to the fees framework have been agreed to for Group 4 level 1 bodies)	[4,5,6]	[4,5,6]

## Next Steps

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26. Based on your discussion with Mr Quigley, officials will draft a letter of expectations for the appointment process.
27. Subject to your agreement on the proposed daily fee, officials will draft a letter to the MoSS seeking his support for an exemption to the Cabinet fees framework. SSC has advised that this process will take approximately three weeks. Once MoSS has indicated his support, officials can begin drafting a Cabinet paper seeking agreement to the daily fee for a September APH meeting.

## Recommended Action

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We recommend that you:

- a **note** the suggested talking points in Annex 1 to support your meeting with Neil Quigley, the Chair of the Reserve Bank Board, on 1 August 2018.
- b **discuss** the proposed timeline for the appointment of Monetary Policy Committee members with Mr Quigley on 1 August 2018.
- c **note** that officials will draft a letter of expectations to the Board for the appointment process consistent with your discussion with the Board Chair.
- d **agree** to send a letter to the Minister of State Services seeking his support for an exemption to the Cabinet fees framework such that external MPC members can receive a daily fee up to <sup>[5,6]</sup> (gross).

*Agree/disagree*

- e **refer** this report to the Associate Ministers of Finance (Hon Parker, Hon Jones, Hon Shaw) for their information.

*Refer/not referred.*

Renee Philip  
**Manager, Macroeconomic and Fiscal Policy**

Hon Grant Robertson  
**Minister of Finance**

## **Annex 1: Talking points for your meeting with Neil Quigley the chair of the Reserve Bank Board, on Wednesday 1 August 2018.**

On Wednesday 1 August 2018 you are meeting with Neil Quigley the Chair of the Reserve Bank Board. The key topics to cover in the discussion, in order of importance, are:

- The MPC appointment process
- Remuneration of external MPC members
- The high-level key requirements for MPC members to inform the job description

Mr Quigley may also raise:

- The Treasury observer on the MPC
- [8]
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Below are some talking points and questions which can be used to support the discussion.

### ***MPC appointment process***

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**Objective:** Reach agreement on the appointment timing and process.

- Working backwards, in order to have the MPC operational in April 2019 the RBNZ Board will need to begin recruitment for external MPC members by September.
- Following this discussion, I will send a letter of expectations outlining high-level expectations for the appointment process and feedback on the job description to the Board to inform the recruitment process.
- In October I am expecting to discuss a shortlist of external MPC candidates with you before the Board finalises its recommendations for external and internal MPC members in early December.
- In January, based on the nominations from the Board, I will appoint the external MPC members (assuming Royal assent of the Bill). Ideally the announcement of the internal and external members of the committee will be coordinated.

**Question:** Is this timing consistent with your expectations?

- Ideally the appointment and announcement of the internal and external member will occur at the same time. At this stage we are considering a January APH meeting to appoint members.

### ***Remuneration of external MPC members***

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**Objective:** Indicate your intention for the daily fee level for external MPC members.

- Remuneration for external MPC members will be set by Cabinet, through the Cabinet fees framework. Remuneration for internal MPC members will be set through a separate process.
- I have received advice that the daily fee level for external MPC members should be [5,6]
- The fee level is subject to support from the Minister of State Services and Cabinet.

## ***MPC member job description***

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**Objective:** Discuss key requirements for external MPC members and note formal feedback will be provided along with the letter of expectations to the Board.

**Note:** It is possible Mr Quigley tables a job description at the discussion. We suggest noting that formal feedback on the job description will be provided later and to focus the discussion on the key requirements of the job.

- I will provide formal feedback on the external MPC member job description when I send a letter of expectations to the Board on the recruitment process later this month.
- However, it would be productive to discuss at a high level the key requirements and characteristics of MPC prospective members now.
- Key requirements of external MPC members:
  - A significant amount of experience in exercising sound judgement under high levels of uncertainty.
  - The ability to engage with complex economic issues and communicate their own views clearly and effectively.
  - Demonstrated their expertise at a very senior level in business, financial markets and/or as a publicly regarded leader in economics or public policy.
- For external members it is not critical that they have monetary policy or economic experience and expertise as this will be covered by the internal MPC members.
- **Question:** Are these requirements in line with your thinking?

## ***If the Treasury independent observer is raised, here are some points to assist the discussion***

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### **Arrangement for the Treasury observer**

- Cabinet previously agreed that the MPC include a non-voting Treasury observer. The Bill provides that the Secretary to the Treasury nominates the observer, who may attend and speak at any meeting of the MPC.
- The Reserve Bank Governor and the Secretary to the Treasury have agreed that Gabs Makhoul will be the observer, with Bryan Chapple attending in exceptional circumstances where Gabs cannot attend. The Bank has also invited Gabs to begin observing in advance of the Legislation being passed.

### **Reserve Bank Board views on the Treasury observer**

- The Board has expressed concern with the provisions in the Bill relating to the observer. The Board's view is that the observer should be appointed by the Minister of Finance, rather than the Secretary to the Treasury.
- Such an arrangement would be consistent with the appointment process for the voting MPC members. The Board considers this necessary given that the observer could influence MPC decisions.

## **Proposed response**

- If raised in conversation, you may wish to explain that because the observer will not be able to vote it is considered that a Ministerial appointment is not necessary. Furthermore, a comprehensive agreement between the Treasury and the Reserve Bank about the arrangements for the observer can help address the Board's concerns.

[8]