

The Treasury

Phase 1 RBNZ Act Review Information Release

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Office of the Minister of Finance

Chair, Cabinet Appointments and Honours Committee

RESERVE BANK (MONETARY POLICY) AMENDMENT BILL: FEE EXCEPTION UNDER THE CABINET FEES FRAMEWORK FOR MONETARY POLICY COMMITTEE MEMBERS

Proposal

- 1 This paper seeks agreement for a fee exception under the Cabinet Fees Framework outlined in Cabinet Office Circular CO(12)6 (the Fees Framework) for external members appointed to the Monetary Policy Committee (MPC) at the Reserve Bank. The MPC is a new committee proposed in the Reserve Bank of New Zealand (Monetary Policy) Amendment Bill (the Bill).

Timeline for changes under the Reserve Bank (Monetary Policy) Amendment Bill

- 2 The Bill is currently before the Finance and Expenditure Select Committee. It provides for two main amendments to the Reserve Bank of New Zealand Act 1989 (the Act):
 - a) instituting a MPC to take decisions on monetary policy; and
 - b) amending the objectives of monetary policy to require consideration of maximum sustainable employment alongside price stability in monetary policy decision-making [CAB-18-MIN-0086 refers].
- 3 The Bill is expected to be passed in December and receive Royal assent late this year or in January 2019. The MPC will need to be in place and operational three months after Royal assent.
- 4 To meet this timeframe, the Board of the Reserve Bank (which is responsible for advising me on MPC appointments) (the Board) has initiated an appointment process. Although formal appointments will not be made until after the Bill is in force and Cabinet has considered proposed appointees, I am seeking an exception under the Fees Framework now so that potential candidates can be informed of an indicative fee range during the selection process.
- 5 I will return to Cabinet before MPC members are appointed, at which point I will also confirm the fee for the MPC members. I expect this to occur in February 2019.

The Monetary Policy Committee

The role of the MPC

- 6 Currently decision-making responsibility for monetary policy sits solely with the Reserve Bank Governor (the Governor). The Bill changes this by introducing a committee decision-making model where the MPC has ultimate authority over monetary policy.
- 7 It is important that we attract candidates of sufficient calibre as the MPC's decisions will impact on the wellbeing of all New Zealanders. Effective monetary policy – delivering price stability and supporting maximum sustainable employment – is fundamental to a well-functioning economy. Price stability assists consumers and businesses in making decisions as to what to produce and consume, and how much to save and invest. Price stability also underpins the creation of jobs. The MPC members will therefore be exercising considerable powers in their decision-making responsibilities.

The composition of the MPC

- 8 The MPC will have between 5 and 7 members, with these members being made up of:
 - a) Internal members: the Governor, Deputy Governor, and 1 or 2 other members who are from the Reserve Bank; and
 - b) External members: 2 or 3 external members appointed from outside the Reserve Bank.
- 9 The internal members, including the Governor and Deputy governor, must be a majority of the MPC (subject to any vacancies). An observer from the Treasury will also attend meetings of the MPC but will not have voting powers.
- 10 The Governor is Chair of the MPC but, as the MPC is a collective decision-making body each of the members will have an equal say in decisions (with the exception of the Chair having a casting vote if required).
- 11 The fee exception I am seeking only relates to the external members of the MPC; the internal members from the Reserve Bank (including the Governor and Deputy Governor) and the Treasury observer do not receive additional remuneration for being members of the MPC outside of their standard salaries. This is consistent with the Fees Framework in Cabinet Office Circular CO(12)6.

The requirements of external MPC members

- 12 The external members will need to have experience demonstrating their skills at the highest level. I consider there likely to be only a small pool of candidates suitably qualified to fulfil the skill requirements.
- 13 In order to meet the expectations of the role, external members will:
 - a) require a significant amount of experience in exercising sound judgement under high levels of uncertainty;
 - b) need the ability to engage with complex economic issues;

- c) have the ability to communicate their own views clearly and effectively;
 - d) 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; and
 - e) need to perform well in a team, which includes being able to debate different perspectives respectfully.
- 14 In addition, the external members will be in the public eye, their decisions will be closely scrutinised, and they will be held accountable for those decisions. Specifically, the Board will monitor the performance of the external MPC members individually, and report publicly on their performance in the Board's annual report. Moreover, the MPC members will be subject to dismissal for inadequate performance in their role or for breaching their duties under the Act.
- 15 MPC members will also not be able to hold some (potentially lucrative) financial sector jobs due to potential conflicts of interest. These restrictions include, but are not limited to, not being able to be a director (or employee) of a registered bank, a licensed NBDT as defined in the Non-bank Deposit Takers Act, or a licenced insurer.
- 16 The expectation is that external members will dedicate around 50 days per year to the role.

Rationale for an exception under the Cabinet Fees Framework

Cabinet Fees Framework – CO(12)6

- 17 The Bill states that the remuneration of external members will be determined by the Minister of Finance in accordance with the Fees Framework.
- 18 The Fees Framework 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.
- 19 Under this framework, bodies fall into one of four groups:
- Group 1: Royal Commissions, Commissions of Inquiry, and Ministerial Inquiries;
 - Group 2: Statutory Tribunals and Authorities;
 - Group 3: Governance Boards; and
 - Group 4: All other committees and other bodies.
- 20 The MPC falls under “Group 4 – all other committees and other bodies”, and receives a level 1 classification (the highest classification under this group). This classification sets a maximum daily fee level for members of \$800.

21 The Fees Framework allows for APH and Cabinet to agree a fee that is different from the fee setting framework when a compelling case exists. I consider a compelling case exists for external members of the MPC.

Rationale for an exception and relevant external benchmarks

22 I consider it very unlikely to be able to attract individuals that can meet the expectations outlined above with a daily fee cap of \$800. MPC members will be decision-makers, exercising considerable powers. This makes the MPC unusual compared to other bodies falling under Group 4 of the Fees Framework where ultimate decision making powers typically remain with Ministers. I therefore propose an exception be applied in order to offer a higher daily fee for these positions. I propose this exception be applied for the initial appointments to the MPC and all future appointments to the MPC. I recommend the daily fee of external members be set at [5,6] (gross, but excluding travel and accommodation expenses).

23 This judgement is based on the expectations of the role, and the daily fee level of similar roles in New Zealand and abroad. Whilst I do not normally support setting exceptional fees at this level, I believe it necessary in order to attract and retain sufficiently qualified candidates to hold these important roles. [5,6]

24 Compared to the roles outlined in table 1 below, I expect the MPC role will require an equivalent level of experience and skills to the Commerce Commissioners and Bank of England MPC members, but be slightly less public facing than the Bank of England MPC members. I also acknowledge that it may be necessary to offer MPC members a higher daily fee than the existing external Reserve Bank monetary policy advisors – as the existing Reserve Bank monetary policy advisors act in an advisory capacity only, whereas the MPC members will be decision-makers with significant responsibilities.

Table 1: Daily fee levels for comparable roles to the MPC

Role	Description	Daily Fee
Commerce Commission Commissioners	<ul style="list-style-type: none"> The Commissioners enforce legislation that promotes competition and prohibits misleading conduct by traders. The role requires significant competition knowledge and expertise. There is widespread interest in their work. 	\$1,565 (Set by the Remuneration authority)
Existing external Reserve Bank monetary policy advisors	<ul style="list-style-type: none"> Provide advice to the Reserve Bank’s Governing Committee to inform the setting of the Official Cash Rate (OCR). 	~\$1,500 ¹

[4,5,6]

Role	Description	Daily Fee
	<ul style="list-style-type: none"> The advisors are experienced and accomplished but are not monetary policy experts and are not responsible for decisions. The role is not public facing and there is no scrutiny of their contribution. 	
Bank of England: Monetary Policy Committee (MPC) external member	<ul style="list-style-type: none"> The Bank of England MPC is responsible for formulating monetary policy. The role requires strong and proven economic and analytical skills. It is also high profile where decisions are scrutinised publicly. 	~\$1,900 ²

Examples of other fee exceptions that have been granted

25 [4,5,6]

- For Group 4 level 1 bodies the highest fee agreed has been [4,5,6] for a Chair, and [4,5,6] for a member.
- For Government Inquiries the highest fee has been [4,5,6] for a Chair, and [4,5,6] for a member.

26 I do not consider these bodies directly comparable with the MPC, for two main reasons:

- The MPC is a decision-making body, rather than an advisory body that provides advice to Ministers who ultimately make the decisions.
- The MPC is a collective-decision making body; therefore all members have an equal say in decision making, and the external MPC members should have an equal voice in decisions as the Chair of the MPC – a position held by the Governor (although the Chair has a casting vote if required).

Consultation with the Minister of State Services, the State Services Commission, and the Reserve Bank

27 The Minister of State Services and the State Services Commission (SSC) have been consulted on the fee exception proposed in this paper and accept that the fee range under the Fees Framework may be insufficient to attract suitable candidates. The Minister of State Services accepts that a fee of [5,6] (gross) per day may be necessary to attract suitable candidates. [5,6]

² Calculation based on £151,179 (295,000 NZD) per annum for three days a week work (156 days total per year).

28 The Reserve Bank has been consulted and is comfortable with ^[5,6]
(gross).

Financial implications

29 No new financial implications arise as a result of the proposals contained in this paper.

30 I have previously advised Cabinet that implementing an MPC will increase the net operating costs for the Reserve Bank by between \$200,000 and \$400,000 per annum. These additional operating expenses arise from recruiting, remunerating and recompensing expenses for external MPC members, as well as providing external members a limited amount of administrative and analytical support.

31 Under Part 6 of the Act, the Reserve Bank's operating expenses are met through a funding agreement, lasting five years, negotiated between the Minister of Finance and the Governor. The current funding agreement will expire in June 2020. Based on the current legislative timetable, it is likely that the MPC will be operational for approximately one year under the current funding agreement. The Reserve Bank has confirmed that it expects to be able to manage the increase in operating costs resulting from the changes recommended in this paper within the terms of the current funding agreement, although the Reserve Bank is currently discussing some reallocation within the current funding agreement with the Treasury. However, the increased costs will need to be reflected in future funding agreements, which may have fiscal impacts to the Crown (CAB-18-MIN-0086 refers).

Recommendations

I recommend that the Committee:

- 1 **note** the Reserve Bank of New Zealand (Monetary Policy) Amendment Bill (the Bill) is currently before the Finance and Expenditure Select Committee and is expected to receive Royal assent by early 2019;
- 2 **note** the Bill amends the Reserve Bank of New Zealand Act 1989 to institute a Monetary Policy Committee (the MPC) that will be responsible for all monetary policy decisions;
- 3 **note** that the Bill states that remuneration for external members be set by the Cabinet Fees Framework as outlined in Cabinet Office Circular CO(12)6 (the Fees Framework) and that I am seeking an exception under this framework so that potential members of the MPC can be informed of an indicative fee level during the selection process;
- 4 **note** the MPC is a Group 4 level 1 body under the Fees Framework which has a daily fee limit of \$800;
- 5 **note** that I consider it very unlikely that we will be able to attract individuals of a sufficient calibre to meet the requirements of the role at this fee level;
- 6 **note** that I consider a daily fee of [5.6] (gross) for external members of the MPC to be appropriate based on the expectations of the role, and the daily fee level of similar roles in New Zealand and abroad;
- 7 [5.6]
- 8 **note** that no new financial implications arise from the proposals contained in this paper;
- 9 **agree** an exception under the Fees Framework for external members of the MPC, such that the daily fee be set at [5.6] (gross, excluding travel and accommodation expenses) for both initial and future appointments of external members
- 10 **note** I expect to appoint external members to the MPC in early 2019, following the passage of legislation.

Authorised for lodgement

Hon Grant Robertson

Minister of Finance