

# The Treasury

## Tax, Housing and RBNZ Information Release

April 2021

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- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
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## Treasury Report: Replacement remit for the Monetary Policy Committee

<b>Date:</b>	17 February 2020	<b>Report No:</b>	T2021/295
		<b>File Number:</b>	MC-1-1-1-2

### Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	<b>Provide feedback</b> on the attached Cabinet paper.	<b>Thursday 18 February</b> , to lodge the Cabinet paper for 22 February.

### Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
Elle Hughes	Analyst	[39]	N/A	✓
Renee Philip	Manager		[35]	

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

**Return** the signed report to the Treasury.  
**Refer** this report to the Associate Ministers of Finance.  
**Lodge** the paper with the Cabinet office, if approved and following any necessary revisions.

Note any feedback on the quality of the report

**Enclosure:** Yes (attached)

## **Treasury Report: Replacement remit for the Monetary Policy Committee**

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### Recommended Action

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We recommend that you:

- a **Note** the draft replacement remit (attached), which incorporates Government policy objectives related to housing affordability,
- b **Note** that Parliamentary Counsel Office (PCO) have made limited technical changes to the existing sections of the remit,
- c **Provide any feedback** on the draft replacement remit,
- d **Note** that the draft replacement remit would require consequential changes to the Monetary Policy Committee's (MPC) charter, which you will need to agree with the MPC,
- e **Agree** to seek Cabinet agreement to:
  - i. Refer an Order in Council (subject to your feedback) to the Executive Council,

*Agree / disagree*

- ii. Waive the 28-day rule for regulation, such that the replacement remit can come into effect on 25 February 2021,

*Agree / disagree*

- f **Provide feedback** on the attached draft Cabinet paper,
- g **Approve** the attached Cabinet paper for lodging, subject to any feedback you have, and any additional changes arising from consultation with PCO on certification, and

*Approve / do not approve*

- h **Refer** to the Associate Ministers of Finance.

*Refer / not referred*

### Purpose of Report

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1. On Monday 15 February, Cabinet authorised you to issue drafting instructions to the PCO for an Order in Council to replace the remit for the MPC [CAB-21-MIN-0018 refers]. Cabinet

agreed that the replacement remit will incorporate Government policy objectives relating to housing affordability, with the intent of:

- a. setting the expectation that the MPC comprehensively understands the effects its decisions have on the Government's housing objective, while it is pursuing its economic objectives; and
  - b. providing transparency and assurance about how the MPC understands these effects.
2. This report provides you with a draft replacement remit for the MPC that incorporates Government policy on housing affordability.
  3. Subject to your feedback on the draft remit, this report also provides you with a draft Cabinet paper to review. The draft Cabinet paper seeks Cabinet's agreement to submit an Order in Council to issue a replacement remit.

## Context

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4. Over the coming months, the Government will consider a range of policies to support better housing outcomes for New Zealanders. As part of this package, we recently provided you with advice on options to require the Reserve Bank to have regard to the Government's housing objectives [T2021/11 and T2021/155 refer]. You subsequently sought Cabinet agreement to progress these options.

On 15 February, Cabinet authorised drafting instructions to replace the remit, and noted your intention to issue a direction under section 68B of the Reserve Bank of New Zealand Act 1989 (the Act). The proposed direction would require the Reserve Bank to have regard to a government policy on housing. It is intended that the section 68B direction and the remit will reference the same Government policy on housing, to support clarity around Government policy and align the Reserve Bank's financial policy and monetary policy decision-making, insofar as practicable. The Treasury will separately provide you with a draft section 68B direction, to facilitate a public announcement on 24 February.

5. **Cabinet agreed the following wording for the Government policy to be set out in the section 68B direction and reflected in the draft remit:**

*“Support more sustainable house prices, including by dampening investor demand for existing housing stock which would improve affordability for first-home buyers”*

[36]

6.

7.

8. [36]

## Replacement remit

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9. **This section explains changes proposed between the current remit and draft replacement remit.** The draft remit largely replicates the current remit with an additional housing matter referenced. The replacement remit introduces a reference to the MPC assessing the effects of its monetary policy decisions on the sustainability of house prices. Some other technical changes have also been made to the remit. [36]

The main changes between the current and draft replacement remit are:

- a. Incorporating the Government's Housing objective (paras 11 - 13),
  - b. Clarifying contextual and operative sections of the remit (paras 14 - 15), and
  - c. Minor formatting and stylistic changes (para 16).
10. The Reserve Bank has been consulted on the draft Order in Council and is comfortable with it. Subject to your feedback, PCO will finalise the Order in Council to reflect final drafting instructions from the Treasury, including to note that the replacement remit is exempt from the requirement to provide a Regulatory Impact Statement on the basis that it has no or minor impacts on businesses, individuals or not for profit entities.

### ***Incorporating the Government's Housing objective***

11. The draft remit includes the following wording to set an expectation that the MPC comprehensively understands the effects of its decision on the Government's housing objective:

*"In pursuing the operational objectives the MPC shall... assess the effect of its monetary policy decisions on the Government's policy set out in subclause (3).*

*(3) The Government's policy is to support more sustainable house prices, including by dampening investor demand for existing housing stock, which would improve affordability for first-home buyers."*

12. The wording under the new subclause 3 aligns with the wording of your section 68B direction for financial policy. We consider that the full policy wording is appropriate as it describes more fully your Government policy. Monetary policy decisions may impact different segments of the housing market differently and it is useful that the assessment the MPC are required to make includes those impacts.

13. If you prefer, it would be possible to use a briefer description of your government policy than set out in the section 68B direction. For example, the remit could more succinctly state "the Government's policy is to support more affordable housing for first-home buyers".

[36]

14. [36]

15.

***Minor formatting and stylistic changes (includes legally privileged advice)***

16. A number of very minor changes have been made for consistency with other sections of the Act and to reflect PCO drafting conventions. These changes are tracked in the Annex.

17. [36]

[36]

18. [36]

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a. [36]

[36]

b.

c.

d.

20. [36]

a. [36]

b.

[36]

21. [36]

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[36]

25. [36]

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## Next steps

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28. Subject to your feedback, PCO will finalise the Order in Council for the replacement remit and the Treasury will revise the Cabinet paper to be lodged for Cabinet discussion on 22 February.
29. **Replacing the remit will require consequential changes to the MPC charter**, which you will need to agree with the MPC. The charter is an agreement between yourself and the MPC that provides for decision-making procedures and transparency and accountability in connection with the MPC's performance. The charter will need to be updated so that cross-references between the replacement remit and charter make sense. For example, the charter requires the MPC to explain how it has sought to meet the requirements of section 2b in the remit, but the relevant section of the draft replacement remit would be section 2. It is also possible the MPC may desire to make other changes to the charter at the same time. Once finalised, the Reserve Bank Governor will inform the MPC of the new remit and seek its views on agreeing a new charter. We will work with the Reserve Bank to draft a new charter that reflects changes to the remit, to be agreed by you and the MPC.
30. **We recommend that the replacement remit come into effect on 25 February.** The Cabinet manual requires regulations to be notified in the *New Zealand Gazette* at least 28 days before they come into effect, except where Cabinet agrees otherwise. We recommend that you seek Cabinet agreement to wave this 28-day rule so that if the MPC were to make an emergency decision over the coming weeks it would do so under the replacement remit. In addition, the remit has little to no direct effect on the public, as it only applies to the MPC's decision-making.

31. We understand that you wish to announce the replacement remit on 24 February, in coordination with the Reserve Bank's *Monetary Policy Statement* press conference. Once issued by the Governor-General, the replacement remit will be published as soon as practicable and the Order in Council will be notified in the *New Zealand Gazette*.

Renee Philip

**Manager, Macroeconomic and Fiscal policy**

Hon Grant Robertson

**Minister of Finance**