

The Treasury

Reserve Bank of New Zealand Bill Information Release

November 2021

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Treasury Report: Supplementary Departmental Report for the Reserve Bank of New Zealand Bill

Date:	28 April 2021	Report No:	T2021/1068
		File Number:	MC-1-7-3-1-3-3

Action sought

	Action sought	Deadline
Hon Grant Robertson Minister of Finance	<p>Note the attached draft supplementary departmental report, and</p> <p>Agree that the Governor would be prohibited from receiving compensation from the Reserve Bank for loss of office for any reason</p>	Midday 30 April 2021

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Jack Starrett Wright	Analyst, Reserve Bank Act Review	[39]	N/A (mob) ✓
James Haughton	Programme Manager, Reserve Bank Act Review	[35]	

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: Yes

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Recommended Action

We recommend that you:

- a **Note** the attached draft supplementary departmental report to be provided to the Finance and Expenditure Committee on 30 April 2021;
- b **Agree** that the Governor would be prohibited from receiving compensation from the Reserve Bank for loss of office for any reason.

Agree/disagree

James Haughton
Programme Manager, RBNZ Act Review

Hon Grant Robertson
Minister of Finance

Treasury Report: Supplementary Departmental Report for the Reserve Bank of New Zealand Bill

Supplementary Departmental Report

1. The Reserve Bank of New Zealand Bill (the Bill) is currently before the Finance and Expenditure Committee (the Committee). On 7 April 2021 officials presented the Departmental Report and during that discussion were asked to report back to the Committee on several questions:
 - a Other public sector organisations which have the Chief Executive as a board member;
 - b The relationship between the removal grounds for the Governor, and the Governor's membership of the board;
 - c Strengthening internal checks and balances in respect of having the Governor on the board;
 - d Parliament's intention regarding the inclusion of 'efficiency' in the Reserve Bank's financial policy objective; and
 - e The power of the Minister to direct the Reserve Bank to perform additional functions.
2. Officials will respond to these questions in a supplementary Departmental Report which will be provided on 30 April 2021. In addition to the information requested by the Committee the supplementary Departmental Report will also cover two other issues which have arisen during the drafting of the Revised Tracked version of the Bill:
 - a A consequential policy decision regarding compensation of the Governor for loss of office (advice is provided below), and
 - b A change to a previous recommendation to the Committee regarding drafting of the Bank's functions.
3. The draft supplementary Departmental Report is attached to this report.

Compensation for the Governor for loss of office

4. Cabinet has agreed that the Governor should be a member of the new Reserve Bank board [DEV-21-MIN-0042 and CAB-21-MIN-0084 refers]. At the same time, Cabinet delegated you authority to further clarify and develop policy matters relating to those proposals in a manner not inconsistent with the policy recommendations and to approve other more minor or technical amendments to the Bill.
5. On 25 March 2021 we provided you with further advice on consequential and second order amendments to the Bill, including those relating to the decision to put the Governor on the board [T2021/683 refers]. Since then, a further consequential policy decision has arisen regarding compensation for the Governor for loss of office. Treasury officials have discussed this issue with the Reserve Bank.
6. Currently, the Reserve Bank Act 1989 does not prohibit the Governor from receiving compensation for loss of office. The Bill, as currently drafted, explicitly prevents both

board members and members of the Monetary Policy Committee (MPC) from receiving compensation for loss of office. This is consistent with the Crown Entities Act 2004.

7. Making the Governor a member of the board has raised an inconsistency in that the Governor is in a privileged position over other board and MPC members despite otherwise having the same rights and duties. For example, currently the Governor could be eligible for compensation after being removed for the breach of a board duty, while other board members breaching the same duty would receive nothing.
8. We recommend that the Governor should not be eligible for compensation regardless of what capacity he or she is acting in. This is consistent with how other board members are treated and with other legislation where the Chief Executive is also appointed to the Board (the Electoral Commission and Law Commission).
9. Providing a leaving Chief Executive with compensation can be a useful tool for boards to manage exits. Officials considered a hybrid solution that 'ringfenced' the Governor's chief executive role as an exception to the 'no compensation' rule. However, this is not practicable; clear ringfencing is not achievable because the boundaries between different aspects of the Governor's office naturally overlap (for example, the Governor's chief executive duties are delegated by the board, which the Governor is now a member of). A hybrid solution may also create difficulties in legislative drafting. Therefore, we recommend instating a complete prohibition on compensation for loss of office.