Review of the Reserve Bank Act

Release Document – Next Steps on Phase 1

July 2018


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Key to sections of the Official Information Act 1982 under which information has been withheld.

[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

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [1] appearing where information has been withheld in a release document refers to section 9(2)(a).
Treasury Report: Reserve Bank Act Review: Next Steps on Phase 1

Date: 22 March 2018
Report No: T2018/722
File Number: MS-9-1

Action Sought

<table>
<thead>
<tr>
<th>Action Sought</th>
<th>Deadline</th>
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<tbody>
<tr>
<td>Minister of Finance (Hon Grant Robertson) Agree to the recommended process for detailed decisions on phase 1 of the Reserve Bank Act Review</td>
<td>Thursday 29 March 2018</td>
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</tbody>
</table>

Contact for Telephone Discussion (if required)

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Telephone</th>
<th>1st Contact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ben Gaukrodger</td>
<td>Senior Analyst, Reserve Bank Act Review</td>
<td>[2]</td>
<td>N/A (mob)</td>
</tr>
<tr>
<td>Renee Philip</td>
<td>Manager, Reserve Bank Act Review</td>
<td>[2]</td>
<td>[1] (mob)</td>
</tr>
</tbody>
</table>

Actions for the Minister’s Office Staff (if required)

Return the signed report to Treasury.
Refer the report to the Associate Ministers of Finance (if agreed).
Arrange meetings to take decisions in mid/late April and mid/late May (if agreed).

Note any feedback on the quality of the report

Enclosure: No
Treasury Report: Reserve Bank Act Review: Next Steps on Phase 1

Purpose of Report

1. This report seeks your agreement to the process to complete phase 1 of the Reserve Bank Act Review (the Review). The report also seeks your agreement to the overall timetable for introducing legislation.

Background and Context

2. On 19 March, Cabinet took high-level policy decisions for phase 1 of the Review. The Cabinet paper noted that a number of second order issues need to be resolved before legislation can be finalised. Cabinet also delegated authority to take decisions on these outstanding issues to you and three Associate Ministers of Finance (Hon Parker, Hon Jones and Hon Shaw).

3. The Review’s Terms of Reference state that a Bill to progress phase 1 decisions will be introduced as soon as possible in 2018. [4] If this is agreed by Cabinet it will ensure drafting is prioritised by Parliamentary Counsel Office (PCO).

4. A detailed list of the outstanding policy decisions required as part of phase 1 is included in Annex 1 of this report. The importance of these decisions vary, and some (such as decisions about the process if any members do not complete their full term) are largely consequential issues that may not require Ministerial decisions before the legislation is drafted. However, some decisions are significant policy choices in their own right, including:
   - the detailed process for setting the operational objectives of monetary policy (that is, the process that will replace the current Policy Targets Agreement (PTA) process);
   - the detailed process for setting the committee Charter, and the boundaries between what is in legislation, what is in the Charter, and what is left to the Monetary Policy Committee (MPC);
   - whether the Reserve Bank Board (the Board) will be granted any additional powers and any further changes to the duties of the Board; and,
   - the statutory duties of the MPC as a whole, and the MPC members individually.

Timeline for Advice and Policy Decisions

5. To speed up the policy development process Officials intend to report to you in two tranches on the second-order issues. The benefit of this approach is that it will simplify policy choices at the end of the process, where there are co-dependencies with decisions made earlier. Two tranches of advice will also allow PCO to begin drafting earlier than would otherwise be the case. This should reduce the time between final Ministerial decisions and Cabinet consideration of draft legislation.
6. In the two tranches of advice we intend to cover five broad topics:
   
   i. **Setting the operational objectives of monetary policy** (i.e. setting the detailed process that will replace the PTA process).
   
   ii. **The committee Charter**, including further details on the approach to decision making, communications and transparency.
   
   iii. **The duties and powers of the Board** (arising from phase 1) plus further details on any changes to the Reserve Bank’s high-level accountability documents and processes, including any changes to the Statement of Intent and Annual Report.
   
   iv. **The statutory duties of the MPC and its members**, including details relating to the appointment and dismissal of committee members.
   
   v. **Transitional provisions** required to implement the phase 1 changes.

7. The first two topics will be covered in the first tranche of advice in mid-April. That advice will also provide context for the second order decisions by providing an overview of how the entire framework for monetary policy would fit together after the changes have been implemented.

8. Advice on the remaining three topics will be provided in mid-May. That advice will also pick up any other issues that require Ministerial decisions before final drafting instructions can be issued.

9. In addition to the issues we will advise you on in April and May, a number of smaller issues will be resolved through the drafting process. We will seek Ministerial agreement to these choices towards the end of the drafting process.

10. This approach and timetable will allow Ministerial decisions to be taken by the end of May and drafting of the legislation to be completed by the end of July. This in turn would allow Cabinet consideration of the draft legislation by the end of August, and introduction of the Bill in September. A full timeline is set out in Annex 2.

11. Decisions are also required on various non-legislative issues, such as enhancing coordination between the Reserve Bank and the Treasury. Officials will advise you on these non-legislative issues after drafting instructions have been issued at the end of May but before draft legislation is considered by Cabinet.

### Process for Decision-Making

12. As noted above, Cabinet has delegated authority to you and three Associate Ministers of Finance to take the outstanding decisions on phase 1. To expedite the decision-making process, we recommend this group of Ministers meet to take decisions after each tranche of advice has been delivered. Officials are currently working to deliver the first tranche of advice by 17 April and the second by 17 May (to enable consideration as soon after Budget as possible).

13. We acknowledge, however, that it may be difficult to arrange meetings with you and the other three Ministers at these times given the proximity to the Budget. If it is not possible to meet, your office will need to manage consultation with the Associate Ministers of Finance after each tranche of advice has been tendered. Officials would also be available to meet with you and the Associate Ministers as required to help inform decision-making. This option is likely to be a slower way of getting decisions than if meetings are held, and any material delay risks delaying the overall timeline.
Legislative Timeline

14. Officials’ recommended timeline, set out in Annex 2, would see drafting instructions issued in tranches from the end of April, and Cabinet approval of draft legislation by the end of August. Consistent with previous decisions, the recommended process does not allow for public consultation on an exposure draft of the legislation prior to the Bill being referred to select committee. You should note that this timeline is indicative only, and will depend on how quickly decisions are made, securing time in the House and the length of the select committee process.

15. Officials’ proposed timeline will allow the first reading of the Bill when Parliament resumes in the first week of September. Assuming the normal six month select committee process, this would enable Royal Assent by the end of April 2019.

16. The bid for space on the legislative agenda suggested the legislation would be passed this year. However, we do not recommend passing the legislation in 2018. Doing so would require shortening either the policy and drafting process, the select committee process or both. Reducing the time for either of these processes risks compromising the quality of the final legislation, and will make it harder to build public support for the reforms. A substantive select committee process that builds public support is particularly important given that the changes are to one of New Zealand’s major economic frameworks and that only limited public consultation was conducted during the policy development process.

17. If you want to pass legislation in 2018 and run a full select committee process, the policy and drafting process would need to be completed by early June. While this is not impossible, it would greatly increase the risks around introducing legislation. Risks could include introducing legislation with provisions with unintended consequences or new processes that are unworkable. This would make significant amendments likely during the select committee and the committee of the whole House stages.

18. Once the legislation has been passed, there will also need to be a transition period of several months before the MPC can become operational. The transition period will allow members to be recruited and appointed, the Charter to be agreed and the operational objectives to be set.

Public Announcement and Release

19. Phase 1 of the Review has been the subject of considerable public interest, and we expect that this will continue until legislation is passed. To provide certainty about the remaining legislative process, we recommend proactively releasing an indicative legislative timetable on the Treasury website once you have agreed it.

20. Officials will also seek public feedback on the issues to be covered in the detailed implementation process. The Treasury website will be updated to welcome written submissions on the detailed implementation of the phase 1 decisions when the initial decisions are announced on Monday 26 March.

Consultation

21. The Reserve Bank has been consulted on this report and agrees with the recommendations. The Parliamentary Counsel Office has been consulted and considers that the proposed timeframe appears feasible, and agrees that a truncated timeframe would create risks to the quality of the legislation.
Recommended Action

We recommend that you:

a  **note** the second order issues that need to be resolved as set out in Annex 1, and that Officials intend to report to you on these issues in tranches in mid-April and mid-May

b  **note** that meeting with the Associate Ministers of Finance to take decisions after each tranche of advice has been tendered will expedite the decision-making process

c  **agree** to meet with the Associate Ministers of Finance to take decisions

   *Agree/disagree.*

d  **note** the proposed timeline for decisions and legislation as set out in Annex 2, and that this will allow for a full select committee process before legislation is passed in April 2019

e  **agree** to the proposed timeline for decisions and legislation

   *Agree/disagree.*

f  **agree** to the proactive release of this report once the intended timetable for phase 1 legislation has been decided

   *Agree/disagree.*

g  **refer** to the Associate Ministers of Finance (Hon Parker, Hon Jones and Hon Shaw)

   *Refer/not referred.*

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Renee Philip  
**Manager, Reserve Bank Act Review**

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Hon Grant Robertson  
**Minister of Finance**
Annex 1: List of Outstanding Policy Decisions

First Tranche of Advice (expected to be provided in mid-April)

Topic 1: Setting the operational objectives of monetary policy

<table>
<thead>
<tr>
<th>Issue</th>
<th>Details to be resolved</th>
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</table>
| Process for setting the operational objectives of monetary policy | • Any changes to content relative to existing PTA structure  
• Process and legislative requirements for research and advice  
• Frequency and flexibility of renewal, and interim review process  
• Transparency requirements |

Topic 2: The committee Charter, communications and decision-making

<table>
<thead>
<tr>
<th>Issue</th>
<th>Details to be resolved</th>
</tr>
</thead>
</table>
| The Charter and communications | • Exact form in legislation  
• Boundaries between legislation, Charter and Code of Conduct  
• Any content beyond communications (e.g. additional detail on decision-making, and external members’ qualifications, time commitment and support)  
• The research/review/consultation process before agreement  
• Process for agreement between the Minister and the MPC  
• Frequency and flexibility for renewal and interim review process  
• Publication requirements |
| Monetary Policy Statement | • Frequency  
• Required content and process for stipulating additional content |
| Decision-making | • Quorum rules  
• Emergency powers |

Second Tranche of Advice (expected to be provided in mid-May)

Topic 3: The duties and powers of the Reserve Bank Board and Annual Report

<table>
<thead>
<tr>
<th>Issue</th>
<th>Details to be resolved</th>
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</table>
| Duties of the Board | • Removal of the requirement to evaluate each MPS  
• Changes to the duties of the Board to recognise the introduction of the MPC, including any implications for how the Board performs their monitoring role  
• Any reporting requirements for the Board |
| The Board’s powers | • Whether the Board will be empowered/required to undertake substantive reviews periodically  
• Whether the Board should have an independent budget  
• Whether Board members can observe MPC meetings  
• Whether the Board can request documents from the Reserve Bank |
| Annual reports | • Whether the MPC should have any annual reporting requirements  
• Whether the Board’s Annual Report should be separate from the Reserve Bank’s Annual Report |
### Topic 4: The statutory duties of the MPC and its members

<table>
<thead>
<tr>
<th>Issue</th>
<th>Details to be resolved</th>
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</table>
| The MPC                    | • The statutory duties for the MPC beyond formulating monetary policy  
                              • Processes when vacancies make membership inconsistent with legislative requirements  
                              • Processes for a 6 member committee  
| Individual Members         | • The statutory duties, functions and powers of the Governor and the other MPC members  
                              • Appointment and dismissal criteria for each of the MPC members  
                              • How to stagger appointments  
                              • Processes for interim appointments and reappointment  
                              • Process for removing internal members from the MPC when they move to a different role within the Reserve Bank  
                              • Conflict of interest and confidentiality provisions  
                              • Processes for setting and revising remuneration and conditions of employment  
                              • Time commitment and level of support for external members  
                              • Arrangements if members leave early  
| Treasury observer          | • Defining who the Treasury representative should be, the process for nominating substitutes, and how much of the MPC process they should observe  
                              • Any statutory requirements or restrictions  
                              • Conflict of interest and confidentiality provisions  |

### Topic 5: Transitional provisions

<table>
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<tr>
<th>Issue</th>
<th>Details to be resolved</th>
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</thead>
</table>
| General transitional provisions | • Initial process for setting the operational objectives  
                                  • Process for agreeing the first Charter  
                                  • Appointments (including for the Board Chair and Deputy)  |
## Annex 2: Proposed Timeline for Decisions and Legislation

<table>
<thead>
<tr>
<th>Milestone</th>
<th>Deadline</th>
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<tbody>
<tr>
<td>Initial Cabinet decisions on high level issues</td>
<td>19 March 2018</td>
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<tr>
<td>Announcement of high level decisions on phase 1</td>
<td>26 March 2018</td>
</tr>
<tr>
<td><strong>Officials give first tranche of advice on second order issues for phase 1</strong></td>
<td><strong>By 17 April 2018</strong></td>
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<tr>
<td>First meeting of Finance Ministers to take decisions on second order issues for phase 1</td>
<td>w/c 23 April</td>
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<tr>
<td>The Treasury issues first tranche of drafting instructions</td>
<td>30 April 2018</td>
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<tr>
<td><strong>Officials give second tranche of advice on second order issues for phase 1</strong></td>
<td><strong>By 17 May 2018</strong></td>
</tr>
<tr>
<td>Second meeting of Finance Ministers to take decisions on second order issues for phase 1</td>
<td>w/c 21 May 2018</td>
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<tr>
<td>The Treasury issues second tranche of drafting instructions</td>
<td>31 May 2018</td>
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<tr>
<td>Drafting</td>
<td>Until 25 July 2018</td>
</tr>
<tr>
<td>New Zealand Bill of Rights Act vetting</td>
<td>25 July – 8 August 2018</td>
</tr>
<tr>
<td><strong>The Treasury reports to Ministers with Cabinet paper and Disclosure Statement, ready for submission to the Cabinet Legislation Committee (LEG)</strong></td>
<td><strong>By 9 August 2018</strong></td>
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<tr>
<td>Minister refers LEG Paper and Disclosure Statement to Cabinet Office</td>
<td>16 August 2018</td>
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<tr>
<td>Obtain LEG (or Cabinet Business Committee) approval to introduce legislation</td>
<td>w/c 20 August 2018</td>
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<tr>
<td><strong>Obtain Cabinet approval to introduce legislation</strong></td>
<td><strong>27 August 2018</strong></td>
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<tr>
<td>First reading and referral to Finance and Expenditure Committee</td>
<td>w/c 3 September 2018</td>
</tr>
<tr>
<td>Finance and Expenditure Committee consideration</td>
<td>September 2018 – March 2019</td>
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<tr>
<td><strong>Second reading – Royal Assent</strong></td>
<td><strong>March - April 2019</strong></td>
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