

Hon Nicola Willis

Minister of Finance
Minister for the Public Service
Minister for Social Investment
Associate Minister of Climate Change



14 OCT 2024

Geof Mortlock
geof.mortlock@gmail.com

Dear Geof

Thank you for your Official Information Act 1982 (OIA) request, received on 19 July 2024. Your request was:

Please provide me with any correspondence and reports between you and the Treasury in relation to the following matters:

- *setting performance requirements for the Reserve Bank in relation to all of its functions;*
- *establishing performance metrics with which to assess the performance of the Reserve Bank in relation to all of its functions, and information on those metrics;*
- *setting performance requirements for the Board of the Reserve Bank;*
- *establishing performance metrics with which to assess the performance of the Board of the Reserve Bank, and information on those metrics;*
- *engaging an independent assessment of the performance of the Board of the Reserve Bank;*
- *engaging an independent performance audit or review of the Reserve Bank in relation to its core functions (particularly monetary policy, the regulation and supervision of banks and insurers, and macroprudential policy); and*
- *engaging an independent performance audit or review of the Monetary Policy Committee of the Reserve Bank.*

The time to respond was extended by 40 working days.

Information being released

Please find enclosed the following documents:

Item	Date	Document Description	Decision
1.	30 November 2023	Treasury Report T2023/1913: 2022/23 Performance Report on the Reserve Bank of New Zealand	Release in part
2.	11 March 2024	Treasury Report T2024/5: Reserve Bank of New Zealand: Letter of Expectations for 2024/25	Release in part
3.	11 March 2024	Treasury Report T2023/2084: Reserve Bank of New Zealand: Aligning the next Funding Review to the Fiscal Sustainability Programme	Release in part
4.	9 May 2024	Treasury Report T2024/987: Reserve Bank of New Zealand: Draft Statement of Intent 2024-2028 and Statement of Performance Expectations 2024/25. Final SPE: www.rbnz.govt.nz/hub/publications/corporate-publications/statement-of-performance-	Release in part

		expectations/statement-of-performance-expectations-2024-to-2025 Final SOI: www.rbnz.govt.nz/hub/publications/corporate-publications/statements-of-intent/statement-of-intent-2024---2028	
5.	24 May 2024	Treasury Report T2024/599: Performance Report on the Reserve Bank of New Zealand as at 31 December 2023	Release in part

I have decided to release the documents listed above, subject to information being withheld under one or more of the following sections of the OIA, as applicable:

- section 6(e)(ii) – to damage seriously the economy of New Zealand by disclosing prematurely decisions to change or continue Government economic or financial policies relating to the regulation of banking or credit,
- section 9(2)(a) – to protect the privacy of natural persons, including that of deceased natural persons,
- section 9(2)(b)(ii) – to protect the commercial position of the person who supplied the information, or who is the subject of the information,
- section 9(2)(ba)(i) – to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied,
- section 9(2)(d) – to avoid prejudice to the substantial economic interests of New Zealand,
- section 9(2)(f)(iv) – to maintain the current constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials,
- section 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expression of opinions,
- section 9(2)(g)(ii) – to maintain the effective conduct of public affairs through protecting Ministers, members of government organisations, officers and employees from improper pressure or harassment,
- section 18(d), the information requested is or will soon be publicly available,
- section 9(2)(i) – to enable the Crown to carry out commercial activities without prejudice or disadvantage, and
- direct dial phone numbers of officials, under section 9(2)(k) – to prevent the disclosure of information for improper gain or improper advantage.

Direct dial phone numbers of officials have been redacted under section 9(2)(k) in order to reduce the possibility of staff being exposed to phishing, social engineering and other scams. This is because information released under the OIA may end up in the public domain, for example, on websites including Treasury's website.

Information does not exist

There is no correspondence between the Treasury and me within scope of your request. Accordingly, this part of your request is refused under section 18(e) of the OIA, as the document alleged to contain the information requested does not exist or, despite reasonable efforts to locate it, cannot be found.

In making my decision, I have considered the public interest considerations in section 9(1) of the OIA.

This reply addresses the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Hon Willis', with a stylized flourish at the end.

Hon Nicola Willis
Minister of Finance

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Treasury Report: 2022/23 Performance Report on the Reserve Bank of New Zealand

Date:	30 November 2023	Report No:	T2023/1913
		File Number:	CM-1-3-122-7

Action sought

	Action sought	Deadline
Minister of Finance (Hon Nicola Willis)	<p>Note to support improved performance of the Reserve Bank, we recommend you use a range of Ministerial levers over the next year</p> <p>Agree to meet with officials to discuss your priorities for the performance of the Reserve Bank and your expectations for the next funding agreement</p>	15 December 2023

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Catalina De Mendoza	Senior Analyst, Commercial Performance	s9(2)(k)	s9(2)(g)(ii)	✓
Lars Piepke	Manager, Commercial and Institutional Performance			

Minister's Office actions (if required)

Return the signed report to the Treasury.
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Note any feedback on the quality of the report

Enclosure: No

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Treasury Report: 2022/23 Performance Report on the Reserve Bank of New Zealand

Executive Summary

This report provides the Treasury's performance assessment of the Reserve Bank of New Zealand (the Reserve Bank) for the financial year ending 30 June 2023 and discusses the levers you could use to support improved performance.

Treasury's approach to assessing performance is a systematic evidence-gathering and evaluation process based on research about factors associated with an organisation's success. We assess performance in four key dimensions:

- **Strategic Alignment:** The alignment of the strategic direction of the Reserve Bank with its operating environment, core purpose and the Minister's expectations. The strategic direction set by the Board and the implementation of strategy by management.
- **Leadership:** The effectiveness of the Reserve Bank's Board and management in providing leadership to the organisation.
- **Organisation:** Organisational design, public disclosure and management of key assets.
- **Results:** Policy and financial results. This focuses on assessing the Reserve Bank's results against its statutory objectives and effective use of Crown resources.

s9(2)(g)(i)

Recent legislative changes have had a significant impact on the Reserve Bank's operating environment

The Reserve Bank of New Zealand Act 2021 (the Act) fundamentally changed the Reserve Bank's governance and accountability framework, including the appointment of an independent Board responsible for all decision-making except decisions made by the Monetary Policy Committee. The implementation of the Deposit Taker Act 2023 (DTA) and the Depositor Compensation Scheme (DSC) will also result in additional organisational changes for the Reserve Bank.

Minister's actions can support the Reserve Bank improving its performance

For the financial year ending on 30 June 2023 the Reserve Bank has performed reasonably well, s9(2)(g)(i) As responsible Minister, you have levers that can support the improvement of performance (see Annex 3 for details of these levers). Recommended Minister's actions are set out in Table 1 overleaf.

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Table 1: Performance improvement opportunities

Issue/risk	Recommended Minister's actions
Strategic Alignment s9(2)(g)(i)	
The Reserve Bank's core objectives and strategy are clear, s9(2)(g)(i)	Provide comments on the Reserve Bank's Statement of Performance Expectations (SPE) and Statement of Intent (SOI) in May 2024. Agree to funding for core activities as part of decisions on the 2025-30 funding agreement in early 2025.
Performance measures in the SPE s9(2)(g)(i)	State an expectation on s9(2)(f)(iv) in the 2024/25 Letter of Expectations (LOE) in February 2024.
The Reserve Bank's main strategic initiatives includes the implementation of the DTA and the DCS.	State an expectation in the 2024/25 LOE on requirements for implementing the DTA and DCS.
The Reserve Bank is developing a business case for a new vaulting and cash processing solution – Project Waitoa.	s9(2)(f)(iv)
Ensuring the Reserve Bank's strategy and funding proposal for the next five-year funding agreement aligns to government priorities for fiscal sustainability.	
Leadership s9(2)(g)(i)	
There are two external Monetary Policy Committee appointments required in March 2024 and June 2024.	Appoint two external Monetary Policy Committee members based on recommendations from the Reserve Bank's Board in December 2023.
The Reserve Bank Board Chair's term is ending in June 2024.	Decide on whether to reappoint the Reserve Bank Board Chair after considering advice from the Treasury in December 2023.
Organisation s9(2)(g)(i)	
The Reserve Bank modernisation process has resulted in significant improvements to organisational maturity, s9(2)(ba)(i)	s9(2)(f)(iv)
Results s9(2)(g)(i)	
Findings from the Review and Assessment of the Formulation of Monetary Policy (RAFIMP) suggest that the Reserve Bank's monetary policy performance is consistent with achieving its economic objective but there is room for improvement.	State an expectation regarding addressing the areas identified in the RAFIMP in the 2024/25 LOE.
There are opportunities to increase focus on price stability and inflation outcomes.	Decide on your preferred option to increase focus on price stability - we have provided you with separate advice on the potential changes to the monetary policy dual mandate [T2023/2001 refers].

Next Steps

Officials would appreciate the opportunity to meet with you to discuss your priorities for the performance of the Reserve Bank and your expectations for the next funding agreement.

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Recommended Action

We recommend you:

- a **note** for the financial year ending on 30 June 2023 the Reserve Bank has performed reasonably well given the challenging operating environment, s9(2)(g)(i)
- b **note** to support improved performance of the Reserve Bank we recommend you use the following Ministerial levers over the next year:
- provide clear expectations in your 2024/25 Letter of Expectations (LOE) to the Reserve Bank in February 2024
 - decide whether to reappoint the Reserve Bank Chair after considering the Treasury's advice in December 2023?
 - appoint two external members to the Monetary Policy Committee after considering the Reserve Bank Board's recommendation in December 2023
 - provide comments on the draft 2024/25 accountability documents (Statement of Intent and Statement of Performance Expectations) in May 2024
 - s9(2)(f)(iv) the Project Waitoa s9(2)(f)(iv)
 - s9(2)(f)(iv)
 -
 - decide on the 2025-30 Funding Agreement in early 2025.
- c **agree** to meet with officials to discuss your priorities for the performance of the Reserve Bank and your expectations for the next funding agreement.

Agree/disagree.

Lars Piepke
Manager, Commercial and Institutional Performance

Hon Nicola Willis
Minister of Finance

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Treasury Report: 2022/23 Performance Report on the Reserve Bank of New Zealand

Purpose of Report

1. This report provides the Treasury's performance assessment of the Reserve Bank of New Zealand (the Reserve Bank) for the financial year ending 30 June 2023 and discusses the levers you could use to support improved performance.

Background

The Treasury assists the Minister of Finance to manage the Crown's interest in the Reserve Bank

2. The Treasury supports the Minister of Finance to oversee and manage the Crown's interests in the Reserve Bank. This includes participating in the process of setting the Reserve Bank's strategic direction, setting expectations and monitoring its performance.
3. The Treasury's approach to assessing performance is a systematic evidence-gathering and evaluation process based on research about factors associated with an organisation's success. We assess performance in four key dimensions:
 - Strategic Alignment: The alignment of the strategic direction of the Reserve Bank with its operating environment, core purpose and the Minister's expectations. The strategic direction being set by the Board and the implementation of strategy by Reserve Bank management.
 - Leadership: The effectiveness of the Reserve Bank's Board and management in providing leadership to the organisation.
 - Organisation: Organisational design, public disclosure and management of key assets.
 - Results: Policy and financial results. This focuses on assessing the Reserve Bank's results against its statutory objectives and effective use of Crown resources.
4. A large rectangular area of the document has been redacted with a grey box. The text 's9(2)(g)(i)' is visible in the top left corner of the redacted area.
5. As per the Reserve Bank of New Zealand Act 2021 (the Act), the Treasury does not perform an independent assessment of monetary policy formulation as this role is performed by the Reserve Bank Board. The scope of the Treasury's role in monitoring monetary policy is limited to assessing organisational maturity aspects of the Reserve Bank that affect advice given to the Monetary Policy Committee (MPC) and the implementation of monetary policy. This includes monitoring the Reserve Bank's systems, resources, processes, and risk management maturity.

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Legislative changes have had a significant impact on the Reserve Bank's operating environment

6. The implementation of the Act, strengthened the Reserve Bank's governance and accountability, through:
- the appointment of an independent Board responsible for all decision making except decisions made by the MPC
 - greater accountability and transparency through the publication of the Reserve Bank's annual Statement of Performance Expectations (SPE) and a Statement of Financial Risk Management
 - formalising the appointment of the Treasury as the Reserve Bank's external monitor
 - establishing a new foreign reserves management and co-ordination framework to facilitate, and bring more transparency to, the use of foreign reserves, and
 - requiring the Reserve Bank to have regard to the new Financial Policy Remit in relation to the Reserve Bank's role as prudential regulator and supervisor.
7. Other recent changes in legislation include the Deposit Taker Act 2023 (DTA), which includes the Depositor Compensation Scheme (DSC)¹ with the objective of protecting deposits and increasing the stability of the financial system. This legislation will result in additional organisational changes for the Reserve Bank, as set out in the Strategy section below.

Strategy

s9(2)(g)(i)

The Reserve Bank's core objectives and strategy are clear, however implementation could improve with better planning and prioritisation

8. Legislation dictates the Reserve Bank's core functions and objectives. The strategy to achieve these is clear and well-articulated in the Reserve Bank's accountability documents. The appointment of the new Board in July 2022 has strengthened the Reserve Bank's decision-making processes and we expect this to continue to enhance the Reserve Bank's strategic direction.
9. In recent years, we think the implementation of some of the Reserve Bank strategic initiatives would have benefitted from better planning and prioritisation. In our view:

- s9(2)(b)(ii) and 9(2)(g)(i)

- s9(2)(ba)(i) and 9(2)(g)(i)

¹ In the event of a deposit taker failure, depositors will be eligible for compensation up to \$100,000 per depositor, per institution.

² Large-Scale Asset Purchase Programme (LSAP): Lowering long term interest rates in the economy and supporting market liquidity through bond purchases; Funding for Lending Programme (FLP): Lowering market interest rates by reducing bank funding costs; Term Lending Facility (TLF): Providing low-cost funding for banks.

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Performance measures in the Statement of Performance Expectations (SPE) need to be improved to provide a coherent account of the Reserve Bank's performance

10. The Reserve Bank only produced its first SPE in September 2022. Considering the Reserve Bank's limited experience in producing SPEs, the quality of some of its performance measures could be improved. The Treasury and the Office of the Auditor General (OAG) have raised concerns with the Reserve Bank given the lack of progress in this area. While the Reserve Bank achieved 14 out of 16 SPE measures (refer to Annex 1), the quality of its performance measures needs to be considered when forming judgements about overall performance.

11. s9(2)(g)(i)

- The Reserve Bank uses binary SPE targets ("Achieved/Not Achieved") for all its measures. s9(2)(g)(i)

12. We understand the Reserve Bank is improving its performance reporting capability by employing more experienced performance staff. Over time, this should lead to improvements to the Reserve Bank's SPE. The draft 2024/25 SPE is due in May 2024, and we expect the Reserve Bank to consider the feedback provided to date by the Treasury and the OAG.

Looking ahead, the Reserve Bank's strategic initiatives include the implementation of the DTA and the DCS, Project Waitoa and the Future of Money

The DTA and DCS will expand the Reserve Bank's role in promoting financial stability

13. The Reserve Bank is currently transitioning to a significantly expanded role in promoting financial stability by implementing the DTA and DCS legislative requirements³. This requires the Reserve Bank to undertake a substantial multi-year work programme to develop, consult and implement regulatory requirements for the new regime and complete a licensing process for deposit takers to operate under the regime by July 2028.

14. The main risks relating to the DTA/DCS include meeting the DCS implementation timeline. s9(2)(g)(i) s9(2)(ba)(i)

15. It is likely that implementation of the DCS will be delayed. s9(2)(g)(i)

³ New or expanded functions include increased intensity of prudential supervision, a greater focus on enforcement of prudential rules, more transparency around the use of resolution tools, and administering the new DCS.

⁴ It is worth noting that the deadline was set by the previous Minister of Finance rather than the Reserve Bank.

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s9(2)(g)(i)

16. s6(e)(ii), 9(2)(ba)(i) and 9(2)(g)(i)

17. s9(2)(b)(ii) and 9(2)(ba)(i)

Project Waitoa and the Future of Money

18. Project Waitoa is the Reserve Bank's new vaulting and cash processing solution to support the Reserve Bank's current and future business operations. The vaulting and cash processing infrastructure is near-end-of-life and needs to be replaced.

s9(2)(b)(ii) and 9(2)(ba)(i)

19. The Reserve Bank is considering the future of money given changes in New Zealand's payment trends, including the growth in online payments, reduced access to cash and increased costs for private companies providing access to cash when there is not sufficient demand. Consideration is also being given to digital and other private money forms (i.e. cryptocurrencies), and potential impacts on New Zealand's money system.

20. The Reserve Bank has several workstreams, which are in an early stage, to improve the resilience, sustainability and efficiency of New Zealand's cash system. The two key workstreams are cash system redesign and the development of a central bank digital currency. The variation to the 2020-25 Funding Agreement provided

s9(2)(b)(ii), 9(2)(ba)(i) and 9(2)(f)(iv)

⁵ This showed the banking sector is resilient, with strong capital and high liquidity levels. Although, the resilience of the non-banking sector is more varied. While the non-banking sector at an aggregate level continues to build capital buffers and improve operational efficiency, some entities face ongoing challenges due to lack of scale.

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s9(2)(f)(iv)

21. s9(2)(b)(ii), 9(2)(ba)(i) and 9(2)(g)(i)

- s9(2)(b)(ii) and 9(2)(ba)(i)
- The strategic initiatives on the Future of Money and DTA/DCS implementation
s9(2)(b)(ii) and 9(2)(ba)(i)
- s9(2)(b)(ii), 9(2)(ba)(i) and 9(2)(f)(iv)

22. To ensure the Reserve Bank's funding proposal for the 2025-30 funding agreement aligns to government fiscal priorities s9(2)(f)(iv)

Leadership

s9(2)(g)(i)

The Reserve Bank has made good progress embedding the new governance arrangements and the Board is performing well

23. The Reserve Bank leadership appears to be performing well and the Reserve Bank has made good progress embedding the new governance arrangements required by the Act. The Board is in a sound shape overall and we understand the relationship with management is constructive. s9(2)(g)(i)

24. In our view, the Board's skill set aligns with the needs of the Reserve Bank. The Chair (Professor Neil Quigley) is well regarded by the other directors, and his extensive experience in central banking and monetary policy is valued. Professor Quigley's first two-year term as Chair (under the new governance arrangements) ends in June 2024. s9(2)(f)(iv) and 9(2)(g)(i)

s9(2)(g)(i)

s9(2)(b)(ii), 9(2)(ba)(i) and 9(2)(g)(i)

s9(2)(g)(i)

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25. s9(2)(f)(iv)
26. We note the Governor is both the CEO and a board member of the Reserve Bank. This is particular to the Reserve Bank and required under the Act (Section 82), but it is unusual as normally with governance across the public sector the CEO is not a board member. The Governor is also a member of the MPC. However, Section 73 of the Act includes some protections to manage the Governor's membership of both the Reserve Bank's Board and the MPC. In particular, the Governor does not take part in discussions and decisions of the Board relating to reviewing the performance of the MPC and its members, and regarding the performance of the Governor.
27. In terms of the MPC, there are two external committee members to be appointed in 2024 (a replacement for Peter Harris by 31 March 2024 and a replacement for Caroline Saunders by 30 June 2024). The Reserve Bank is responsible for recommending external committee members and they have progressed the appointment process to the short-list stage after interviewing several candidates. The Reserve Bank will be updating you on the short list in December 2023 before seeking your approval for recommended appointments.

Organisation s9(2)(g)(i)

The Reserve Bank modernisation process has resulted in significant improvements to organisational maturity, s9(2)(ba)(i) and 9(2)(g)(i)

28. The Reserve Bank has made substantial investments to improve IT infrastructure resilience, data management, and cybersecurity controls. s9(2)(b)(i), 9(2)(b)(ii) and 9(2)(ba)(i)
29. The Reserve Bank has developed a seven-year digital and security strategy (2022/23-2029/30) divided into three stages. s9(2)(b)(ii) and 9(2)(ba)(i)

30. s9(2)(b)(ii) and 9(2)(ba)(i)

⁸ Privileged access management is an identity security solution that helps protect organisations against cyber threats by monitoring, detecting, and preventing unauthorised privileged access to critical resources.

⁹ s9(2)(b)(ii) and 9(2)(ba)(i)

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- s9(2)(b)(ii) and 9(2)(ba)(i)
 -
 -
31. s9(2)(ba)(i) and 9(2)(g)(i)
- The August 2023 funding agreement variation provided funding s9(2)(b)(ii) and 9(2)(i)
- The Reserve Bank's initial organisational transformation programme was completed in the 2022/23 financial year***
32. The Reserve Bank completed its initial transformation programme to improve its organisational capabilities and operating model. The transformation programme included completing the review of its organisational structure, developing a people's framework, increasing the organisational and leadership resilience, enabling flexible working, improving digital and data resilience, and reviewing internal policies¹⁰.
33. The transformation programme is particularly important given the significant growth of the Reserve Bank from 275 FTEs in 2019 to 510 FTEs in 2023:
- A large portion of the FTE uplift was to increase financial stability resourcing to respond to the IMF's Financial System Stability assessment¹¹ recommendation to increase resourcing in financial supervision. s9(2)(b)(ii) and 9(2)(ba)(i)
 - To help address historical underinvestment in information technology, s9(2)(b)(ii) and 9(2)(ba)(i)
 - s9(2)(b)(ii)
34. Given the transformation programme has been completed, going forward we expect to see improved organisational maturity.

Results s9(2)(g)(i)

The Reserve Bank's performance against its statutory objectives has been reasonable, s9(2)(g)(i)

35. The Reserve Bank has achieved reasonable results for its economic, financial stability and central-bank objectives¹³. This is supported by the performance of the Reserve

¹⁰ Initiatives included pilots for improving diversity, equity and uplifting Te Ao Māori capability. A new Human Resources Management Information System and employee survey tools to monitor and develop organisational culture, engagement, inclusion and wellbeing were also implemented.

¹¹ [IMF FSAP review 2017](#)

¹² We define back-office functions as functions in the following business units: Strategy, Governance and Sustainability, Governors Office, Transformation, Innovation, People and Culture, Risk, Compliance and Legal.

¹³ *Economic objectives:* Achieving and maintaining price stability over the medium term, and supporting maximum sustainable employment; *Financial stability objective:* Protecting and promoting the stability of New Zealand's financial system; *Central bank objective:* Otherwise acting as New Zealand's central bank in a way that furthers the purposes of the Act.

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Bank against its SPE and SOI key performance measures, findings from RAFIMP, the Board's assessment of the MPC, and the Reserve Bank's internal reporting.

Economic Objective

Findings from the RAFIMP and the Board's assessments suggest that the Reserve Bank's monetary policy performance is consistent with achieving its economic objectives, s9(2)(g)(i)

36. Currently, the Economic Objectives are achieving and maintaining price stability over the medium term and supporting maximum sustainable employment. Under section 131 of the Act, the Reserve Bank commissioned the RAFIMP for the period 2017-2022. The review found that the easing in monetary policy was largely warranted during the pandemic. **It also observed the additional monetary policy tools were effective in restoring functionality to the financial system. However, the review concluded that, in hindsight, monetary policy should have been tightened earlier in 2021. The RAFIMP included nine recommendations to improve monetary policy performance, and these are set out in Annex 2.**
37. The RAFIMP findings recognise that there are opportunities to improve monetary policy performance. This is consistent with the Treasury's advice on opportunities to increase focus on price stability and inflation outcomes. We have provided you with separate advice on the potential changes to the Reserve Bank's dual mandate [T2023/2001 refers].
38. The Reserve Bank Board's 2022/23 assessment of the MPC's performance confirmed the MPC members had adequately discharged their respective responsibilities in relation to the price stability objective. The Board noted the areas for improvement identified in the RAFIMP are driving enhancements to the policy design, capabilities and research agenda that supports the monetary policy process and the work of the MPC.
39. The Treasury does not perform an independent assessment of monetary policy formulation as this role is performed by the Reserve Bank Board. The scope of the Treasury's role in monitoring monetary policy is limited to assessing organisational maturity aspects of the Reserve Bank that have an impact on the advice given to the MPC, and in the implementation of monetary policy.
40. The MPC outputs and performance measures are not included in the Reserve Bank's SPE or SOI, as setting specific targets could undermine the independence of the MPC and the Board's statutory responsibility for monitoring the performance of the MPC. However, the SPE includes performance measures on how the Reserve Bank supports the MPC to formulate monetary policy (SPE 1 and SPE 2 in Annex 1).
41. For the year ending 30 June 2023, the Reserve Bank achieved five of the six SPE monetary policy measures (refer to Annex 1). One of the Reserve Bank's key monetary policy implementation objectives is to ensure that short-term market interest rates trade at or near the OCR. These short-term interest rates are important as they influence longer-term interest rates and financial conditions more broadly in the economy, including interest rates faced by households and businesses. The Reserve Bank affects economic activity and inflation by controlling short-term interest rates. It is the Reserve Bank's responsibility to ensure transactions in these short-term interest rate markets occur at or near the OCR. The Reserve Bank conducts operations and offers facilities where market participants can borrow and deposit settlement cash – the electronic cash held in accounts with the Reserve Bank to settle payments between commercial banks – to ensure that trading in these markets stays close to the OCR.
42. The Reserve Bank did not achieve the monetary policy measure (SPE 4) related to this objective due to international events which adversely affected the effectiveness of some standby facilities in ensuring that short-term market interest rates trade close to

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the OCR. The Reserve Bank introduced a new standby facility to counter this in late 2022 and made subsequent adjustments to improve the effectiveness of this facility. The Reserve Bank's initial assessment is that these changes have been effective in mitigating these issues.

Financial Stability Objective

43. The Reserve Bank's Financial Stability Objective focuses on having a resilient financial system that supports New Zealand's economic activity. The Reserve Bank achieved all the SPE measures related to the Financial Stability Objective.
44. The Reserve Bank's *Financial Stability Report* assesses and reports on the health and efficiency of New Zealand's financial system. The report published in November 2023, noted that the financial system remains sound in the higher interest rate environment. Central banks have maintained tight monetary policy settings in the face of elevated global inflationary pressures. This has led to an ongoing increase in interest rates that has raised debt servicing costs for households and businesses.
45. According to the *Financial Stability Report*, despite the more challenging economic environment, most households and businesses are adapting to the higher interest rate environment. The financial system continues to demonstrate resilience and is well placed to manage the possible emergence of more severe stress and weaker economic conditions. The housing market has stabilised following a decline in prices, supported by strong net migration.

Central Bank Objective

46. The Central Bank Objective includes managing foreign reserves, meeting the cash needs of the public, providing liquidity facilities, providing and operating payment and settlement systems for New Zealand's financial institutions, and liaising and cooperating with other central banks and relevant institutions.

The Foreign Reserve Management and Coordination Framework (FRCF) has been established s9(2)(g)(i)

47. As required under the Act, the Reserve Bank agreed with the Minister of Finance a foreign reserves management and co-ordination framework in December 2022. The FRCF sets out how the Reserve Bank must hold and manage the foreign reserves and the respective roles of the Reserve Bank and the Minister of Finance. The Act created a clear financial stability objective for the Reserve Bank, and it may use the foreign reserves to intervene in the market in pursuit of this objective if there is dysfunction in the New Zealand Dollar foreign exchange market. In the past, interventions like this were generally done under ministerial direction, which provided an automatic statutory indemnity.
48. In some instances, the Reserve Bank may also use the foreign reserves if the value of the currency is misaligned under the peaks and troughs framework.
49. To provide financial backing for the higher levels of reserves agreed under the framework, the Crown provided additional capital of \$500m and s9(2)(d) and 9(2)(i)
s9(2)(ba)(i)

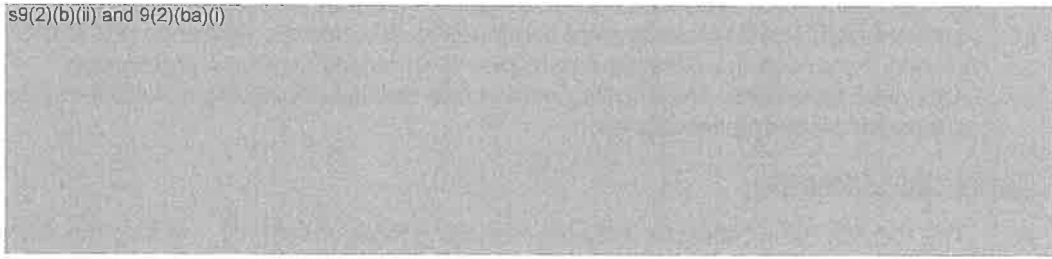
s9(2)(ba)(i)

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The Reserve Bank did not meet some SPE and SOI Measures under its Central Bank Objective

50. For the year ending 30 June 2023, the Reserve Bank achieved five of its six measures related to the Central Bank Objective. The measure not achieved was associated with the stewardship of money, cash and payments (SPE 11).
51. Cyclone Gabrielle exposed the lack of resilience in New Zealand's cash system and its vulnerability to power, data, and road network outages, exacerbated by banks reducing branch and ATM networks and retreating from offering in-branch cash services for retailers. The increased likelihood of extreme weather events due to climate change exacerbates this risk. The Reserve Bank recognised the need for a cash system redesign, infrastructure and stewardship, and is engaging with key stakeholders to develop potential solutions.
52. The Reserve Bank also develops and reports on SOI measures. These measures track progress against the Reserve Bank's longer-term strategy.
53. As of 30 June 2023, the Reserve Bank is on track to achieve 14 out of 21 measures

s9(2)(b)(ii) and 9(2)(ba)(i)



Financial Overview of the Reserve Bank

The Reserve Bank has a solid financial position supported by the \$79m uplift in funding agreed in August 2023

54. The Reserve Bank's financial position is solid. For the year ended 30 June 2023, the Reserve Bank showed a net surplus of \$202m, which was \$75m ahead of budget. This result is driven by greater Net Interest Income due to higher interest rates (\$78m ahead of budget). Foreign Exchange gains of \$70m were largely offset by mark-to-market losses of \$75m. Total operating expenditure of \$159m was slightly under budget (by \$3m) due to a staff vacancies, however the total operating expenditure was above the 2021/22 amount of \$140m.
55. The August 2023 variation to the 2020-25 funding agreement contributes to this solid financial position. The Reserve Bank was provided an uplift of \$79m (increasing the total funding to \$719m for the 5-year period) to meet additional requirements from DTA and DCS legislation and Project Waitoa business case expenses, which were excluded from the 2020-25 funding agreement. Some additional funding was also provided to support high-risk areas that were funded in the baseline.
56. The financial risks identified by the Board that have the most significant impacts on the Reserve Bank's financial position are interest rate and foreign currency risk. Changes in interest rates have an effect on the Reserve Bank's net interest income which is the banks' main source of income. Interest rate and foreign currency risks are mitigated through strategies set out in the Reserve Bank's Statement of Financial Risk Management. This includes strategies such as Value at Risk (VaR) monitoring, interest rate limits and foreign currency position limits.
57. The Reserve Bank manages foreign currency reserves in two portfolios: an unhedged portfolio and a hedged portfolio as agreed by the FRCF. The unhedged portfolio is

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exposed to changes in foreign exchange rates and interest rate yields on foreign currency assets. The level and composition of foreign reserves is expected to fluctuate during normal times, as the exchange rate fluctuates. s9(2)(d) and 9(2)(i)

Operational cost management results show the Reserve Bank is currently underspending its total funding allowances

58. The Reserve Bank has a cumulative total underspend of \$30m over the first two years of its 2020-25 funding agreement. s9(2)(b)(ii) and 9(2)(ba)(i)

59.

The Reserve Bank's balance sheet has grown significantly - a capital injection was required for the Reserve Bank to manage current and future financial risks and maintain sufficient capital to perform its functions

60. The Reserve Bank uses its balance sheet to enable the delivery of its policy objectives in monetary policy and financial stability.
61. Due to COVID-19, the Reserve Bank introduced a range of AMP tools¹⁵ to provide increased stimulus to the New Zealand economy and to support the financial markets. These AMP tools led to a significant growth in its balance sheet, with total assets of \$88.9 billion as at 30 June 2023 (compared with \$42.3 billion pre-COVID-19). The Reserve Bank's financial market operations are mostly funded with deposits, and it does not have term liabilities.
62. During 2023, the Reserve Bank did a financial resources review. This resulted in a request from the Reserve Bank for an increase in capital, so that it could manage a greater range of financial risks, for example potential future interventions related to financial stability and risks already on the Reserve Bank's balance sheet from COVID-19 interventions that did not receive financial backing at the time. As a result of the review, the Reserve Bank revised its target capital levels from \$2.40 billion to \$4.20 billion as at 30 June 2023.
63. In September 2023, Cabinet agreed to provide the Reserve Bank with a capital contribution of \$1.3 billion, in addition to the \$0.5 billion for the implementation of the FRCF. The capital injection (\$1.8 billion in total) was to ensure that the Reserve Bank had sufficient capital to cover a prudent range of potential risks and to maintain sufficient capital to perform its functions. Given the Reserve Bank's additional capital requirements, there was no dividend paid to the Crown in 2022/23, which partially funded the capital injection.

The 2023/24 first quarter financials are s9(2)(b)(ii) and 9(2)(ba)(i)

64. Based on the Reserve Bank's first quarter financial report as at the end of September 2023, the expenditure for the funding uplift was s9(2)(b)(ii) and 9(2)(ba)(i)

¹⁵ Large-Scale Asset Purchase Programme (LSAP): Lowering long term interest rates in the economy and supporting market liquidity through bond purchases; Funding for Lending Programme (FLP): Lowering market interest rates by reducing bank funding costs; Term Lending Facility (TLF): Providing low-cost funding for banks.

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s9(2)(b)(ii) and 9(2)(ba)(i)

Recommended Minister's actions based on the Treasury's assessment of the Reserve Bank's performance

65. There are several mechanisms through which the Minister of Finance can support improvements to the Reserve Bank's performance. We have included some actions below, considering the order in which you will be required to make decisions.

2024/25 Letter of Expectations (LOE)

66. The 2024/25 LOE provides the opportunity for you to outline your performance expectations to the Reserve Bank. We will provide advice and a draft Letter of Expectations for your consideration in February 2024. Some Reserve Bank entity-specific expectations you might consider are outlined below and have been divided between continued and new expectations:

Continuing expectations from 2023/24 Letter of Expectations

- Continue embedding new legislative requirements under the Act.
- s9(2)(f)(iv) and 9(2)(g)(i)
- Continue making progress on implementing the DTA and DCS.
- Early engagement with the Treasury on relevant performance and policy matters.

s9(2)(f)(iv) and 9(2)(g)(i)

- Provide a robust business case for Project Waitoa.
- Address the RAFIMP recommendations.

Scope of value for money analysis to inform decisions for the 2025-30 funding agreement

67. The Treasury is developing options on the scope of the value for money analysis for the 2025-30 funding agreement proposal to ensure the Reserve Bank's strategy and funding proposal aligns to government priorities for fiscal sustainability. We will provide advice in February 2024 on the recommended scope of the value for money analysis.

68. s9(2)(f)(iv) and 9(2)(g)(i)

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Board Appointments and Business Planning

69. Board appointments provide an opportunity to ensure there are appropriate skills and experience on the Board to govern the Reserve Bank's achievement of outcomes. After considering advice from the Treasury in December 2023, a decision on the reappointment of the Reserve Bank Chair or the appointment of a new Reserve Bank Chair will be required by June 2024 [T2023/1668 refers].
70. There are two external committee members to be appointed to the MPC in 2024 (one by 31 March 2024 and the other by 30 June 2024). The Reserve Bank Board will recommend candidates for appointment to the MPC in December 2023.
71. As part of the 2024/25 business planning round, you can provide comments on the Reserve Bank's SPE and SOI in May 2024.

Next Steps

72. Officials will appreciate an opportunity to meet with you to discuss your priorities for the performance of the Reserve Bank and your expectations for the next funding agreement.
73. Upcoming Board appointments advice will be provided by the end of the year. This will be followed by advice in February 2024 on the scope of the value for money analysis to be conducted by the Treasury in the next funding review and advice on the 2024/25 Letter of Expectations.
74. Our next performance assessment will be provided in the performance report for the half year ending 31 December 2023, due to be provided to you by the end of April 2024.

s9(2)(b)(ii) and 9(2)(ba)(i)

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Annex 1: SPE and SOI metrics 2022/23

Statement of Performance Expectations

Output one – Monetary Policy		2022/23 target
1.	We monitor and assess the MPC against the MPC Remit, Charter and Code of Conduct, with a formal review on an annual basis	Achieved
2.	We have provided MPC with high quality research, forecasts and analysis to ensure monetary policy decisions are made in a fully informed manner consistent with the MPC's remit.	Achieved
3.	We are transparent and effective in our communications on monetary policy to media, the public, government and market participants.	Achieved
4.	We conduct operations in financial markets and provide standby facilities to implement monetary policy and ensure that short-term market interest rates are within our Board approved tolerance ranges.	Not Achieved
5.	Our foreign reserves are effectively managed within the range set by the Minister of Finance to support economic objectives and to ensure markets operate in an orderly fashion.	Achieved
6.	We monitor and manage the level of banking system settlement cash to be within target ranges to facilitate the settlement of day-to-day financial transactions, and provide emergency liquidity assistance in extraordinary circumstances.	Achieved
Output two – Financial Stability and Prudential Regulation and Supervision		
7.	We identify, monitor and assess financial stability risks and promote public awareness and understanding of these risks and our responses.	Achieved
8.	We supervise regulated entities and investigate instances of non-compliance with sectoral legislation, policy and standards; take action when required to ensure non-compliance is rectified; and if, appropriate, bring enforcement action against non-compliant entities.	Achieved
9.	We develop, adapt and implement prudential regulatory tools, taking action when appropriate to address identified opportunities, risks and gaps.	Achieved
Output three – Stewardship of money, cash and payments		
10.	Our payments and settlement systems meet or exceed 99.95% availability on an annual basis and a minimum of 75% of our customers rate our service as satisfactory or better in our annual customer survey.	Achieved
11.	We monitor and maintain an efficient, resilient and sustainable cash system that meets the public's needs.	Not Achieved
12.	We explore the future of money and payments to ensure they are reliable, efficient and support innovation and inclusion.	Achieved
Output four – Engaging with stakeholders and cooperating with regulatory agencies and other relevant institutions		
13.	We undertake a range of engagements with both domestic and international stakeholders to support an understanding of our objectives and key decisions and learn and collaborate on longer-term strategic challenges.	Achieved
14.	We engage effectively with regulated entities and target at least 75% of respondents rating us as a minimum of 4 out of 5 or equivalent in our annual relationship charter survey.	Achieved
15.	We take a systemic approach and contribute to a sustainable, inclusive and productive economy through our own activities and effective and coordinated partnerships with stakeholders.	Achieved
16.	We operate in a financially responsible manner by managing our expenditure in line with our funding agreement as approved by the Minister of Finance.	Achieved

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Statement of Intent commitments

SOI commitments		s9(2)(b)(ii) and 9(2)(ba)(i)
Sol 1	Working with our stakeholders: Financial Inclusion	
Sol 2	Working with our stakeholders: Climate Change	
Sol 3	Working with our stakeholders: South Pacific	
Sol 4	Working with our stakeholders: Te Ao Maori / Te Waka Hourua	
Sol 5	Working with our stakeholders: Improving our cyber resilience	
Sol 6	Ngā Pūtake: Embed the Reserve Bank of New Zealand Act 2021	
Sol 7	Ngā Pūtake: Review of the Reserve Bank's foreign reserves and financial resources	
Sol 8	Te Tariwai: Supporting the evolution of payments	
Sol 9	Te Tariwai: Payments industry projects – ISO 20022 and SCI365	
Sol 10	Te Toto: Monetary Policy Committee Remit Review	
Sol 11	Te Toto: Evolution of money and cash system redesign	
Sol 12	Ngā Pekanga: Deposit Takers Bill complete and operational	
Sol 13	Ngā Pekanga: Depositor Compensation Scheme	
Sol 14	Ngā Pekanga: Interim Insurance (Prudential Supervision) Act/Solvency Standards	
Sol 15	Ngā Pekanga: Intensification of supervision and enforcement	
Sol 16	Ngā Pekanga: Financial Market Infrastructure Act implementation – standards and designations	
Sol 17	Kaitiakitanga: Connected culture and healthy organisation	
Sol 18	Kaitiakitanga: Courageous and inclusive leadership	
Sol 19	Kaitiakitanga: Thriving people	
Sol 20	Kaitiakitanga: Enabled by data and technology	
Sol 21	Kaitiakitanga: Connected operations	

Key:

Key.
 – On track – meeting all of its milestones and progressing to expected timeframe

- On track – meeting all of its milestones and progressing to expected timeframe
- At risk – key deliverables delayed, paused and/or not meeting all milestones. Minor or moderate investment and monitoring needed.

R – Not progressing to intended timeframe and/or experiencing significant delays and/or impacting the Reserve Bank's wider priorities. Major investment or change in approach needed.

The Reserve Bank develops and reports on SOI measures. These measures track progress against the Reserve Bank's longer-term strategy. As of 30 June 2023, the Reserve Bank's performance against SOI measures ^{s9(2)(b)(ii) and 9(2)(ba)(i)}

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Annex 2: Areas for improvement according to RAFIMP

Monetary Policy Formulation

1. Develop broader insight into the impacts of supply shocks on inflation: A deep understanding of the economic context in which monetary policy operates is essential. To this end, the Reserve Bank needs a strong focus on the supply side of the economy and the impacts of relative price shocks on aggregate inflation. Pandemics, earthquakes, and climate change are all examples of sources of shocks.
2. Develop new sources of data for economic monitoring: Committee decisions are based on an expectation of how the economy could evolve and how it will react to monetary policy decisions. There remains potential to incorporate more and different types of higher-frequency data into the Committee's assessment process.
3. Develop better measures of 'neutral' interest rates: Neutral interest rates fell more than expected in the period leading up to the pandemic, resulting in tighter-than-intended monetary policy. Improving our understanding of the stance of monetary policy (whether monetary policy settings are expansionary, contractionary, or neutral) assists in policy calibration. This includes improving our understanding of the factors that influence neutral interest rates and developing additional indicators of policy tightness.
4. Understand the future role of fiscal policy instruments in managing economic shocks: Working with the Treasury, fiscal policy should also be considered as a source of stimulus under certain conditions, and/or when the OCR is near its effective lower bound. The recently-developed suite of fiscal tools need to be further understood.
5. Refine the measure of Maximum Sustainable Employment (MSE): The MSE objective in the Committee's MPC Remit is somewhat opaque and is not well understood by the public. Further clarity about its nature and how it fits within the MPC Remit could be helpful.
6. Use Large Scale Asset Purchases (LSAP) to mitigate financial market dysfunction: The LSAP programme was highly effective in response to the liquidity crisis that emerged in early 2020, when financial markets were becoming dysfunctional. As such, LSAP should be used to correct dysfunction in financial markets in future. Communicating the overall stance of policy while using a mix of policy instruments (OCR and LSAP) could also be improved.
7. Be cautious in providing forward guidance in uncertain times: To be effective, the Funding for Lending Programme required a long time-commitment to ensure banks were confident that a stable and secure funding source was available. In hindsight, the Funding for Lending Programme could have been designed with more flexibility. While forward guidance is effective, the appropriate stance of monetary policy is data-dependent.

Monetary Policy Implementation

1. Maintain the OCR as the preferred tool for setting monetary policy: The OCR is the preferred tool for managing the level of monetary stimulus through economic cycles, provided the OCR is above the effective lower bound. While AMP tools influence interest rates, they carry reputational risk as the general public only directly observe the marked-to-market fiscal implications of the Reserve Bank holding government bonds, as well as operational risk in calibrating their effectiveness.
2. Maintain operational readiness for AMP tools: The decline in neutral interest rates over recent decades increases the risk of the OCR hitting its effective lower bound. The Committee needs to maintain the operational readiness of AMP tools. This includes being able to implement a negative OCR if required.

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Annex 3: Ministerial levers to support performance improvements at the Reserve Bank

There are several mechanisms through which the Minister of Finance can support performance improvements at the Reserve Bank. We outline below the main levers, however it is important to note that there are other levers outside of this list.

Board engagement: The Minister can meet with or write to a Board's Chair on a performance issue or proposal.

Request information about operations and performance: The Minister can request the Reserve Bank's Board supply them with any information about the operations and performance of the Reserve Bank (s196 of the Act).

Board appointments: The Minister makes decisions on the Board's appointments process and can propose changes to the Board's composition to strengthen performance.

MPC appointments: The Minister makes decisions on the appointment of external members to the MPC based on the Board's recommended candidates.

Statement of Performance Expectations or Statement of Intent feedback: The Minister can provide feedback on the draft Statement of Intent (SOI) or Statement of Performance Expectations. The Minister can require the Reserve Bank to provide a draft SOI at any time, and the Reserve Bank must consider any comments the Minister makes finalising the SOI (s218 and s223 of the Act).

Letters of Expectations: The Minister can set out his expectations in an annual (or as required) Letter of Expectations. The Reserve Bank must have regard to the Minister's expectations.

Funding Agreements: Funding agreements must be agreed between the Minister and the Reserve Bank (s209 of the Act). This provides the Minister with an opportunity to influence investment priorities when funding agreements are negotiated every five years.

Financial Policy Remit: The Minister may amend or replace the Financial Policy Remit at any time after consulting the Reserve Bank (s203 of the Act).

Remit for Monetary Policy Committee (MPC): The Minister may issue an MPC Remit at any time. Before an MPC Remit is issued the Minister must consult the Reserve Bank (s122; schedule 3, clause 8 of the Act).

Direct the Reserve Bank on minimum level of capital and financial risk management: The Minister may direct the Reserve Bank to take all reasonable steps to maintain a minimum level of capital specified by the Minister and the Reserve Bank must have regard to the Minister's expectations on financial risk management (s208 of the Act).

Direct the Reserve Bank to deal in foreign exchange within guidelines: The Minister may, for the purpose of influencing the exchange rate or exchange rate trends, direct the Reserve Bank to deal in foreign exchange within guidelines set out by the Minister (s134 of the Act).

Review of the Reserve Bank's operations and performance: The Minister can commission a review of the operations and performance of the Reserve Bank (s194 of the Act). Before the review is undertaken the Minister must consult with the Reserve Bank on the purpose and nature of the review and consider submissions by the Reserve Bank on the proposed review.

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Treasury Report: Reserve Bank of New Zealand: Letter of Expectations for 2024/25

Date:	11 March 2024	Report No:	T2024/5
		File Number:	CM-1-3-122-9-2-3

Action sought

	Action sought	Deadline
Minister of Finance (Hon Nicola Willis)	<p>Indicate whether you have any feedback on the attached Letter of Expectations (LOE) to the chair of the Reserve Bank of New Zealand</p> <p>Agree to sign and send the attached LOE to the chair of the Reserve Bank of New Zealand</p>	18 March 2024

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Hannah Berry	Graduate Analyst, Commercial and Institutional Performance	s9(2)(k)	N/A (mob) ✓
Lars Piepke	Manager, Commercial and Institutional Performance	s9(2)(g)(ii)	

Minister's Office actions (if required)

<p>Return the signed report to the Treasury.</p> <p>If agreed, send the attached LOE to the chair of the Reserve Bank of New Zealand.</p>

Note any feedback on the quality of the report

Enclosure: [DRAFT 2024/25 RBNZ Letter of Expectations](#)

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Treasury Report: Reserve Bank of New Zealand: Letter of Expectations for 2024/25

Purpose of Report

1. This report provides a draft Letter of Expectations (LOE) for the year ending 30 June 2025 for the Reserve Bank of New Zealand (the Reserve Bank) for your consideration and approval.

Purpose of Letters of Expectations

2. The attached LOE is an important lever for the Minister of Finance to clearly communicate their expectations for the Reserve Bank and provides an opportunity to influence the strategic direction, business planning and performance of the Reserve Bank.
3. While LOEs are not statutory documents, the Reserve Bank will consider the LOE as they develop and confirm their business plan for the 2024/25 financial year.

Contents of Draft 2024/25 Letter of Expectations

4. The attached draft Letter of Expectations contains three sections:
 - a. The Government's overarching priorities.
 - b. Entity specific expectations for the Reserve Bank.
 - c. General expectations for the Reserve Bank.

Government Priorities

5. Where applicable to the Reserve Bank, the *Government Priorities* section expectations are consistent with those agreed by Ministers in the Draft 2024/25 Letter of Expectations Template [T2024/169 refers]. In addition, because of the crucial role the Reserve Bank plays in the New Zealand economy, it has been reiterated that, where appropriate, the Reserve Bank should have consideration of the Government's wider economic and social priorities.

Entity Specific Expectations

6. The *Entity-specific Expectations* section provides further detail about how the Reserve Bank might support the Government's priorities, in particular, efficiency, effectiveness and delivery. We have included the following Reserve Bank specific expectations:
 - a. **Monetary policy decisions to target low and stable inflation.** This expectation reflects the removal of the Reserve Bank's dual mandate and the Government's focus on reducing the cost of living.

The board is accountable for assessing the performance of the Monetary Policy Committee (MPC). We have set out expectations for the board to consider the recent *Review and Assessment of the Formulation and Implementation of Monetary Policy* and legislative changes in its assessment of the performance of the MPC.

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- b. **The Reserve Bank to continue on its modernisation pathway and address areas for improving organisational maturity.** This requires addressing the areas for improvement signalled in the Treasury's performance report [T2023/1913 refers] and recommendations provided by the Office of the Auditor General (OAG) in its annual audit letter^{s9(2)(g)(i)}

- c. **The 2025-2030 Funding Agreement proposal and review process to align with the Fiscal Sustainability Programme.** We have provided you with separate advice on aligning the next funding review to the Government's Fiscal Sustainability Programme. The advice includes a separate draft letter to the Reserve Bank outlining your expectations for the 2025-2030 Funding Agreement proposal and review process [T2023/2084 refers].

In the draft LOE we suggest you reiterate the high-level expectations for the funding review. This includes that the Board should consider the broader Crown fiscal position when providing its funding proposal and to consider reprioritisation of its existing funding to meet its spending before seeking additional funding.

- d. **Delivery of key initiatives, good regulatory practice and continued engagement.** The draft LOE includes expectations on the delivery of the Deposit Takers Act 2023 and Deposit Compensation Scheme, the consideration of good regulatory practice when undertaking its regulatory stewardship functions, engaging with the Treasury on matters of joint interest and keeping the Minister updated on any significant events.

General Expectations

7. The *General Expectations* section refers chairs to the Treasury's *Owner's Expectations* document. This document applies only in part to the Reserve Bank, so the Reserve Bank should only consider it where appropriate. The Treasury's *Owner's Expectations* document is being updated during 2024 and we will advise Ministers' offices once the revised version is published.
8. The *General Expectations* section also reiterates that the board are expected to:
- a. have a charter/code of practice to provide guidance and to assist directors to carry out their duties and responsibilities effectively and in accordance with the highest professional and ethical standards. This includes reflecting:
 - i the requirement for directors to act in a politically impartial manner and conduct themselves in a way that enables them to act effectively under current and future governments, and
 - ii the process in place for disclosing and dealing with conflicts of interest appropriately and promptly, including the maintenance of an interests register.
 - b. undertake independent board evaluations at least biennially, and self-assessments between those evaluations, to improve performance and allow Ministers to assess performance.

s9(2)(g)(i)

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The Reserve Bank has been informed of the content of the draft LOE

9. The Treasury has shared a copy of the draft 2024/25 LOE with the Reserve Bank. The Reserve Bank only provided very minor wording feedback which was included in the draft LOE.

s9(2)(f)(iv)

Next Steps

11. If you agree with the content of the draft LOE, we recommend that you sign and send the attached LOE to the chair of the Reserve Bank of New Zealand by 18 March 2024.
12. In response to the LOE, the Reserve Bank is expected to send a Strategic Issues Letter to you by the end of April 2024. This letter is to acknowledge the LOE, and outline material issues expected to be addressed during the next financial year. These issues are expected to be addressed through business plans and, where appropriate, reflected in public accountability documents.
13. Once the LOE has been sent, we will prepare the LOE for proactive release on the Treasury's website. We will identify and remove any commercially sensitive or other confidential information and consult with you on the proposed redactions.

Recommended Action

We recommend you:

- a **indicate** whether you have feedback on the attached 2024/25 Letter of Expectations for the Reserve Bank of New Zealand

No feedback/feedback provided.

- b **agree** to sign and send the attached 2024/25 Letter of Expectations for the Reserve Bank of New Zealand to the chair of the Reserve Bank of New Zealand.

Agree/disagree.

Lars Piepke
Manager, Commercial and Institutional Performance

Hon Nicola Willis
Minister of Finance

_____/_____/_____

Hon Nicola Willis

Minister of Finance
Minister for the Public Service
Minister for Social Investment
Associate Minister of Climate Change



Professor Neil Quigley
Chair, Board of Directors
Reserve Bank of New Zealand
§9(2)(a)

Dear Neil

MINISTER'S EXPECTATIONS FOR THE RESERVE BANK OF NEW ZEALAND

I am writing to outline how your board can support the delivery of the Coalition Government's priorities, and my specific and general governance expectations for the Reserve Bank of New Zealand (the Reserve Bank) over 2024/25. I ask that you identify opportunities to support the Reserve Bank to consider how to address these expectations in your Strategic Issues Letter and include actions in the Reserve Bank's 2024/25 business planning documents.

Government Priorities

I expect boards to be conscious of the Government's priorities. In an ongoing challenging fiscal environment these include:

- lifting New Zealand's productivity and economic growth to increase opportunities and prosperity for all New Zealanders; and
- improving the efficiency and effectiveness of the public service and of government-funded services.

The Reserve Bank plays a crucial role in the New Zealand economy. The Reserve Bank's actions influence the performance of the economy and financial system and therefore materially impact the prosperity of New Zealanders. It is important the Reserve Bank's approach to performing its functions has regard, where appropriate, to the Government's broader economic and social objectives.

The Government is committed to delivering results, and all public organisations, including the Reserve Bank, have a part to play. I expect the Reserve Bank to focus on delivering its core objectives and work alongside stakeholders to continue improving performance. I expect you to set ambitious targets and develop robust performance measures.

The Crown has been in operating deficit since 2019/20 with the level of government spending having increased significantly in recent years. Careful fiscal management is required to get the Government books back in order and ensure limited funds are directed towards the highest value investments. We expect any future funding proposals to align with the Crown's fiscal sustainability programme.

Entity-specific expectations

As the Reserve Bank undertakes its operations and plans for the future, I expect it to:

- maintain a clear focus on its core objectives and all aspects of performance improvement following the challenges arising during and post-pandemic;
- ensure the organisation operates efficiently and effectively, maintains a focus on driving down costs and seeking operational improvements wherever it can;
- adapt and innovate so as to ensure all the resources the Reserve Bank utilises remain fit-for-purpose; and
- report on performance in a manner that is clear on the extent to which the Reserve Bank is achieving its objectives and represents value for money.

Monetary policy decisions to focus on targeting low and stable inflation

Reducing the cost of living for New Zealanders is a priority for the Government. I acknowledge the critical role of the Reserve Bank in formulating and implementing monetary policy to help reduce cost of living pressures.

The Reserve Bank of New Zealand (Economic Objective) Amendment Act 2023 recently amended the Reserve Bank of New Zealand Act 2021 (the Act) to remove the dual mandate economic objective to support maximum sustainable employment. To support this change, I issued a new Remit for the Monetary Policy Committee (MPC) and agreed a new Charter. Both came into effect on 20 December 2023.

The Reserve Bank board should consider the implementation of these changes alongside any improvement opportunities recommended by the *Review and Assessment of the Formulation and Implementation of Monetary Policy* in the board's annual performance assessment of the MPC and how these can be supported by operational changes where necessary.

Effective coordination of monetary and fiscal policy is of crucial importance. I encourage engagement and the flow of information between the Reserve Bank and the Treasury to enable this. I also welcome the Reserve Bank keeping me informed of its views on the interaction between monetary and fiscal policy.

The Reserve Bank to continue on its modernisation pathway and address areas for improving organisational maturity

I acknowledge the progress the Reserve Bank has made in its modernisation programme, improving organisational maturity and embedding new legislative requirements of the Act. The Reserve Bank should continue its modernisation process and focus on improving organisational maturity by:

- Further developing and enhancing its performance framework and improving the quality and relevance of the Reserve Bank's performance reporting in its Statement of Performance Expectations for 2024/25. We expect the performance measures to show achievement of outcomes not just completion of activities.
- Strengthening financial management of operating and capital expenses. This includes ensuring there is an appropriate level of financial maturity in forecasting and planning.

- Implementing the 2022/2023 audit recommendations to improve the performance information and associated systems and controls.
- Investing appropriately to continue progress in improving IT infrastructure resilience, data management, and cybersecurity.

Align the 2025-2030 Funding Agreement proposal with the Crown's fiscal sustainability programme

I expect that the Reserve Bank's funding proposal for the 2025-2030 Five-year Funding Agreement (FYFA) aligns with the Crown's fiscal sustainability programme. I expect the Reserve Bank to consider reprioritising its existing funding to meet its spending before seeking any additional funding. Further detail on the parameters of the 2025-2030 FYFA will be provided in due course.

The Treasury will play a key role in assessing the Reserve Bank's funding proposal. I expect the Reserve Bank to continue to actively engage and collaborate with the Treasury, to ensure it has the information required on a timely basis to provide robust advice to me.

As the Reserve Bank prepares to upgrade its core vaulting infrastructure (Project Waitoa), and the refurbishment of the Reserve Bank's building on 2 The Terrace in Wellington, please give the same consideration to the Crown's fiscal sustainability when providing options and requesting funding in the business case.

Implementation of the Deposit Takers Act and Deposit Compensation Scheme

I acknowledge that the Reserve Bank is currently transitioning to a significantly expanded role in protecting and promoting financial stability in New Zealand in line with the new Deposit Takers Act (DTA) and Depositor Compensation Scheme (DCS).

I expect the initial DCS to be in place by mid-2025, (to be commenced by regulation) and for the Reserve Bank to cooperate closely with the Treasury on the funding arrangements for the scheme. I also expect the Reserve Bank to be prepared for the implementation of the wider DTA, including the development of a DCS Fund Risk Appetite Statement, DTA standards, associated regulations, and its new function to develop and maintain resolution plans for deposit takers.

I would appreciate the Reserve Bank keeping me and the Treasury informed of risks, and mitigation strategies, that may impact the DCS programme. I expect the Reserve Bank will publish a statement of Resolution Approach as required under the DTA and welcome updates on the implementation of the programme.

Regulatory Stewardship and the Government's expectations for Good Regulatory Practice

The Reserve Bank performs important regulatory functions. To support effective regulatory outcomes, the Government expects regulatory agencies to have regard and give effect, as appropriate, to the good regulation principles and regulatory stewardship expectations set out in the Government Expectations for Good Regulatory Practice.

Continue to engage with the Treasury on matters of joint interest

I would like to receive timely advice from the Reserve Bank on significant events, transactions and other issues that may be contentious or of public interest, and advice about:

- significant risks relating to the use of the Reserve Bank's balance sheet;
- any financial institutions facing material risk of financial difficulty;
- any reasonable likelihood that I may need to exercise my powers (for example, crisis management powers under prudential legislation); and
- any significant policy developments relating to macroprudential policy, or of emerging risks to the financial system.

To facilitate the Treasury's role as external monitor, I encourage the Reserve Bank to ensure the Treasury has access to the Reserve Bank's management and relevant information. I expect the information provided to be high-quality, timely and to include insights on the Reserve Bank's performance towards achieving its strategy and key work programmes.

General expectations

The Treasury's Owner's Expectations document

Strong board governance is critical to the performance and success of the Crown's companies and entities. Where appropriate, I refer you to the Treasury's [Owner's Expectations document](#), which discusses the role of boards and directors, the board appointment process, and expectations relating to governance. The document also outlines expectations for financial and other dimensions of performance, and matters such as reporting, disclosure, public accountability, and business cases.

The Treasury is updating its Owner's Expectations document and will contact you in due course to consult you on its contents.

Board charter/code of practice

The board is expected to have a charter/code of practice to provide guidance and to assist directors to carry out their duties and responsibilities effectively and in accordance with the highest professional and ethical standards. Each board's charter/code of practice should cover board procedures and reflect, among other duties and responsibilities:

- the requirement for directors to act in a politically impartial manner and conduct themselves in a way that enables them to act effectively under current and future governments. This includes not making political statements, engaging in political activity in relation to the functions of the Reserve Bank, and acting in ways that places Ministers or entities they are responsible for in a position of embarrassment; and
- the process in place for disclosing and dealing with conflicts of interest appropriately and promptly, including the maintenance of an interests register and the disclosure of interests at meetings or when certain issues are discussed. I expect your board to share this register with the Treasury as it is updated.

I expect you to disclose these documents in the interests of transparency and public accountability.

Board evaluations

Board evaluations are a tool for boards to improve their performance and allow Ministers to assess the performance of a board. Independent board evaluations should ideally take place biennially unless there have been significant changes to board composition or when commercial imperatives demand full board attention. Self-assessments of board performance are encouraged in between biennial independent board evaluations to assess performance to date and ensure the board is well positioned for future challenges. I expect you to share independent board evaluation and self-assessment results with the Treasury to contribute to its advice on board composition.

Further information

A timeline for the forthcoming business planning process is set out for your reference.

Your Treasury relationship managers will be in contact shortly after you receive this letter to discuss my expectations in more detail. If you have any questions, please contact Catalina De Mendoza, Senior Analyst, Commercial and Institutional Performance (on s9(2)(k) [redacted]). Alternatively, you can contact Lars Piepke, Manager, Commercial and Institutional Performance (on s9(2)(k) [redacted]).

Yours sincerely

Hon Nicola Willis
Minister of Finance

cc Adrian Orr, Governor Reserve Bank of New Zealand, s9(2)(a) [redacted]

Timetable for the 2024/25 business planning process

<i>Due</i>	<i>Key action</i>
March 2024	The chair and the Treasury discuss the LOE
By end of April 2024	The board sends its Strategic Issues Letter to the Minister of Finance
30 April 2024	The board sends its draft Statement of Performance Expectations (SPE) and Statement of Intent (SOI) to the Minister of Finance
31 May 2024	The board provides advice on: <ul style="list-style-type: none"> • whether special fees are sought for 2024/25; • the professional development spend in 2023/24 and the proposed professional development budget for 2024/25; and • whether an evaluation of its performance in the past 12 months has taken place, what process was used and the outcomes of the evaluation
As soon as practicable after sending the final SPE and SOI	The Reserve Bank publishes the final SPE and SOI on its website

Please alert the Minister and the Treasury as soon as possible if you are unable to meet these deadlines or if clarification is required.

Further information is available in the Owner's Expectations document.
<http://www.treasury.govt.nz/publications/guide/owners-expectations>

BUDGET-SENSITIVE



Treasury Report: Reserve Bank of New Zealand: Aligning the next Funding Review to the Fiscal Sustainability Programme

Date:	11 March 2024	Report No:	T2023/2084
		File Number:	CM-1-3-122-6-2

Action sought

	Action sought	Deadline
Minister of Finance (Hon Nicola Willis)	Agree to align the Reserve Bank's next funding review to the goals of the Fiscal Sustainability Programme Agree to send a letter to the Reserve Bank about the scope of the next funding review	18 March 2024

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Dr Andrew Wood	Principal Advisor, Commercial and Institutional Performance	s9(2)(k)	s9(2)(g)(ii)	✓
Lars Piepke	Manager, Commercial and Institutional Performance			

Minister's Office actions (if required)

Return the signed report to the Treasury.

Send the attached letter to the Reserve Bank about the scope of the next funding review.

Note any feedback on the quality of the report

Enclosure: Yes (attached)
[Letter to RB on scope of funding proposal and review baseline review option](#)

BUDGET-SENSITIVE

Treasury Report: Reserve Bank of New Zealand: Aligning the next Funding Review to the Fiscal Sustainability Programme

Executive Summary

The purpose of this report is to seek your agreement to align the Reserve Bank of New Zealand's (Reserve Bank's) next funding review to the Fiscal Sustainability Programme (FSP). We recommend the scope of the next funding review includes the Treasury conducting a value for money analysis of any proposed funding uplift and a baseline review by the Reserve Bank board.

s9(2)(f)(iv)

Background on 2025-30 funding agreement process

The Reserve Bank is funded through an agreement with the Minister of Finance. This agreement covers the Reserve Bank's operating and capital expenditure and is renewed every five years. While the current funding agreement does not expire until 30 June 2025, we recommend a new funding agreement is agreed with the Reserve Bank in April 2025 to align with Budget 2025 processes.

The Reserve Bank and the Treasury are starting work on the next funding agreement. This provides an opportunity to align the assessment process with the FSP.

Recommendations to align the funding review to the FSP

We recommend the Reserve Bank funding review comprises the Treasury conducting a value for money analysis of any proposed funding uplift and an expectation that the Reserve Bank board undertakes a baseline review with a savings target of 7.5% of the Reserve Bank's 2024/25 budget extended out for four additional years.

This will help to ensure the funding review is aligned to the Government's efforts to ensure all government spending is as efficient and effective as possible, while maintaining the Reserve Bank's operational independence. The Reserve Bank's funding agreement is agreed between the Reserve Bank and the Minister.¹ This means that there will be substantial ongoing discussions with the Reserve Bank as part of the funding agreement process, including a review of any funding proposal. Under the recommended option, it is expected the Reserve Bank board will conduct a baseline review

s9(2)(g)(i)

This option provides high public accountability for the use of funds and aligns well to the Government's cost savings and collective fiscal ownership and accountability goals.

The Reserve Bank board is accountable for the Reserve Bank performing its functions efficiently and effectively and operating in a financially responsible manner², has access to better information than the Treasury and is in the best position to assess trade-offs between

¹ Sections 209(1) and 210(1)(a) of the Reserve Bank of New Zealand Act 2021.

² Sections 46(a) and 47 of the Reserve Bank of New Zealand Act 2021.

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savings and delivery risks. This option also maintains the Reserve Bank's operational independence and has modest administrative and compliance costs.

The Reserve Bank board would determine the nature of the baseline review. However, to achieve the optimum outcome from the review, we suggest you set an expectation that the review achieves savings of 7.5% of the Reserve Bank's 2024/25 budget extended out for four additional years. The 7.5% target is based on similar targets for other baseline reviews. FSP baseline reviews have cost savings targets of 7.5% for agencies that have increased FTEs by more than 50% since 2017/18. As the Reserve Bank has increased FTEs 100% since 2017/18, we suggest the savings target would also be 7.5% for the Reserve Bank. Although, we note the Reserve Bank's FTE expansion has been driven by modernising the Reserve Bank, which includes the institutional reforms under the Reserve Bank of New Zealand Act 2021 and increased responsibilities under the Deposit Takers Act 2023.

Other options we considered (refer to Table 1 in the body of this report) are not recommended as they either do not align well to the FSP or may weaken the Reserve Bank's operational independence.

s9(2)(f)(iv)

Risks and next steps

One of the key purposes for the funding review is to ensure the Reserve Bank's future funding envelope represents value for money (i.e. maximising outcomes for a given cost). If the recommended review option is not agreed to this would reduce the likelihood of an efficient spending proposal. In turn, this may mean the Reserve Bank has less profit available to pay an annual dividend to the Crown. This may negatively impact on your goal to deliver enduring improvements to OBEGAL.

There are also risks around a Reserve Bank board led baseline review. There is a risk that the Reserve Bank board fails to reprioritise its expenditure sufficiently to achieve the 7.5% savings target.

s9(2)(g)(i)

Although, we note that any such risks should appropriately be raised by the Reserve Bank as part of its baseline review. It is the Treasury's view that on balance, these risks can be managed by the Reserve Bank board which has full accountability for the Reserve Bank's operational and financial position and through your 2025-30 funding agreement decisions.

s9(2)(f)(iv)

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Recommended Action

We recommend you:

- a **note** there is an opportunity to align the Reserve Bank's next funding review to the Fiscal Sustainability Programme
- b **agree** that the scope of the next funding review includes the Treasury conducting value for money analysis of any proposed funding uplift and an expectation that the Reserve Bank board conduct a baseline review with a savings target of 7.5% of the Reserve Bank's 2024/25 budget extended out for four additional years (as part of discussions to agree a funding agreement before 30 June 2025)

Agree/disagree.

c

sB(2)(f)(iv)



Agree/disagree.

- d **agree** to send the attached letter to the Reserve Bank chair.

Agree/disagree.

Lars Piepke
Manager, Commercial and Institutional Performance

Hon Nicola Willis
Minister of Finance

____/____/____

BUDGET-SENSITIVE

**Treasury Report: Reserve Bank of New Zealand: Aligning the next
Funding Review to the Fiscal Sustainability Programme**

Purpose of Report

1. The purpose of this report is to seek your agreement to align the Reserve Bank of New Zealand's (Reserve Bank's) next funding review to the Fiscal Sustainability Programme (FSP). We recommend the Reserve Bank funding review comprises the Treasury conducting a value for money analysis of any proposed funding uplift and an expectation that the Reserve Bank board undertakes a baseline review with a savings target of 7.5% of the Reserve Bank's 2024/25 budget extended out for four additional years. In addition, we recommend you commission the Reserve Bank to provide advice on whether its prudential regulation and supervision functions could be funded through cost recovery from industry.

Background

The Reserve Bank's funding model balances public accountability for the use of funds with maintaining operational independence

2. The Reserve Bank's funding is a combination of self-generated revenue and fees for providing financial services. Most of the Reserve Bank's funding comes from the retention of revenue generated from its balance sheet and currency operations. Under the Reserve Bank of New Zealand Act 2021 (the Act), the level of income it can retain to cover operating and capital expenditure is set out in a five-year agreement between the Minister of Finance and the Reserve Bank.³
3. Any excess revenue is paid to the Crown through an annual dividend, in accordance with dividend principles stated in the Reserve Bank's Statement of Financial Risk Management. The Reserve Bank is currently forecasting to pay a dividend of around [REDACTED] in 2023/24 and [REDACTED] in 2024/25. The level of expenditure funding agreed with the Reserve Bank through funding agreements impacts the Crown's operating balance before gains and losses (OBEGAL). [REDACTED] 9(2)(ba)(i), 9(2)(b)(ii)
4. Funding agreements aim to achieve a balance between maintaining the Reserve Bank's operational independence⁴ and public accountability for the use of funds⁵.
5. The current funding agreement covers the period from 1 July 2020 to 30 June 2025. It provides \$719 million⁶ in funding to the Reserve Bank over a five-year period (see Annex 1 for more details). While the current funding agreement does not expire until 30 June 2025, we recommend a new funding agreement is agreed with the Reserve Bank in April 2025 to align with Budget 2025 processes. The Reserve Bank produces a proposal for each funding agreement outlining desired levels of funding, on which the Treasury provides advice to the Minister of Finance.

³ The Reserve Bank of New Zealand Act 1989 only required funding agreements to cover operating expenditure. The 2025-30 Funding Agreement will therefore be the first funding agreement to cover both operating and capital expenditure (as required by section 209 (5) (a) of the Reserve Bank of New Zealand Act 2021).

⁴ It is international best practice for central banks to have a high degree of budgetary independence. This is to (a) ensure monetary policymakers are free from direct political or governmental influence in respect of inflation and prudential decision making and (b) avoid the time inconsistency issue between election cycles and long-term investment time horizons.

⁵ The Reserve Bank Act review assessed the funding model for the Reserve Bank. It was decided to retain funding agreements as the best funding model to balance operational independence with public accountability for the use of funds. Budgetary independence would provide more operational independence but would remove an ex-ante democratic check on the Reserve Bank's spending intentions. An appropriations model aligns with normal practice across the state sector but would reduce the operational independence of the Reserve Bank and be an outlier internationally for central banks.

⁶ This was initially \$640 million but was increased to \$719 million in the 2023 variation to the funding agreement.

BUDGET-SENSITIVE

The Reserve Bank is not currently included in the FSP, but there is an opportunity to align the next funding review to the FSP

6. It is expected that funding agreements consider the economic and fiscal environment. In December 2023, Cabinet agreed to a FSP [CAB-23-MIN-0490 refers]. This programme has three interrelated objectives:
 - Generating sufficient reprioritisation, savings, and revenue measures to fund the Government's priorities and deliver enduring improvements in the OBEGAL position.
 - Strengthening the public finance system to tighten fiscal discipline and embed a culture of continuously improving value for money.
 - Ensuring collective ownership and accountability for the fiscal position and value for money at all levels of government.
7. Phase one of the FSP involves an Initial Baseline Exercise (IBE). This includes agency led reviews of baselines to identify operating expenditure savings of 6.5% for most agencies or 7.5% for agencies with over 50% FTE growth since 2017/18. Ministers are intending to focus savings opportunities on low value programmes, spending that is not aligned with the Government's priorities, non-essential back-office functions and contractor and consultant spending. Phase two of the FSP seeks to implement a set of savings and performance tools to ensure that at an aggregate level, public spending is well aligned to the government's priorities and provides value for money.
8. The Reserve Bank is not currently included in the FSP because it is not a department or funded through appropriations. The Reserve Bank expenditure funding, however, is part of the core Crown accounts and has an impact on OBEGAL. There is an opportunity to align Reserve Bank funding to the FSP through the approach to the funding review, which will inform 2025-30 funding agreement levels. However, this alignment would need to be tailored to consider the Reserve Bank's operational independence.

Aligning the scope of the next funding review to the Fiscal Sustainability Programme

We recommend the scope of the funding review includes a Treasury review of any proposed funding uplift and an expectation that the Reserve Bank board conducts a baseline review with a savings target of 7.5% of the Reserve Bank's 2024/25 budget extended out for four additional years

9. The Treasury recommends the scope of the upcoming funding review includes a Treasury review of any proposed funding uplift and an expectation that the Reserve Bank board conducts a baseline review with a savings target of 7.5% of the Reserve Bank's 2024/25 budget extended out for four additional years. This would ensure the funding review is aligned to the Government's efforts to ensure that all government spending is as efficient and effective as possible while maintaining the Reserve Bank's operational independence. This option achieves the best balance between the trade-offs in determining the scope of the review (see Table 1 overleaf).

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Table 1: Overview of assessment of options for review scope

Option	Public accountability alignment	FSP alignment	Operational Independence alignment	Administrative and compliance costs
Option 1: A Treasury assessment of any proposed funding uplift and a Reserve Bank board led baseline review with a savings target of 7.5% of the Reserve Bank's 2024/25 budget extended out for four additional years <i>[the Treasury preferred option]</i>	s9(2)(g)(i)			
Option 2: A Treasury assessment of any proposed funding uplift and no baseline review				
Option 3: A Treasury assessment of any proposed funding uplift and a Treasury led targeted baseline review				

The Treasury recommended option provides the best balance between the key factors

10. The recommended option provides high public accountability for the use of funds and aligns well to the Government's cost savings and collective fiscal ownership and accountability goals. The Reserve Bank board is accountable for the Reserve Bank performing its functions efficiently and effectively and operating in a financially responsible manner⁷, has access to better information than the Treasury and is in the best position to assess trade-offs between savings and delivery risks. This option also maintains the Reserve Bank's operational independence and has modest administrative and compliance costs for the Treasury relative to a targeted baseline review by the Treasury.
11. The Reserve Bank board would determine the nature of the baseline review, including whether revenue measures count towards cost savings. However, to achieve the optimum outcome from the review, we suggest you set an expectation that the review achieves savings of 7.5% of the Reserve Bank's 2024/25 budget extended out for four additional years. The 7.5% target is based on similar targets for other baseline reviews. FSP baseline reviews have cost savings targets of 7.5% for agencies that have increased FTEs by more than 50% since 2017/18. As the Reserve Bank has increased FTEs 100% since 2017/18 (see Annex 1), we suggest the savings target would also be 7.5% for the Reserve Bank. Although, we note the Reserve Bank's FTE expansion has been driven by modernising the Reserve Bank, which includes the institutional reforms under the Reserve Bank of New Zealand Act 2021 and increased responsibilities under the Deposit Takers Act 2023.

s9(2)(f)(iv)

⁷ Sections 46(a) and 47 of the Reserve Bank of New Zealand Act 2021.
T2023/2084 Reserve Bank of New Zealand: Aligning the next Funding Review to Fiscal Priorities

BUDGET-SENSITIVE

13. As with other agencies, we suggest you outline your expectations that cost savings options focus on low value spending and non-essential back-office functions, including consultant and contractor spending.

s9(2)(g)(i)



Other options considered are not recommended as they would either have low alignment to the FSP or may weaken the Reserve Bank's operational independence

15. We considered two other options for the scope of the review: no baseline review (option 2) or a targeted baseline review conducted by the Treasury (option 3). Option 2 is not recommended as it does not align to the FSP. We estimate this would reduce the likelihood of an efficient 2025-30 funding proposal due to the lack of a baseline review proposal. In turn, this may mean the Reserve Bank has less profit available to pay an annual dividend than under the other options.
16. Option 3 is not recommended as it may weaken the Reserve Bank's operational independence, undermine the board's accountability for the financial performance of the Reserve Bank and would have high administration and compliance costs.
17. It is important the funding model for the Reserve Bank does not resemble an appropriations model. Otherwise, this would skew the balance between operational independence and accountability as well as undermine funding model decisions made in the Reserve Bank of New Zealand Act review. A key component of the appropriations model is regular baseline or spending reviews of departments conducted by the Treasury. Given this, we think that a targeted baseline review conducted by the Treasury could potentially weaken the Reserve Bank's operational independence by making the Reserve Bank funding model too similar to an appropriations funding model.
18. In addition, a Treasury led targeted baseline review would have the highest administrative and compliance costs due to significantly higher administrative costs for the Treasury. We estimate this would double administrative costs for the Treasury, an expense that would not be justified given review outcomes are likely to be lower than option 1.

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s9(2)(f)(iv)



BUDGET-SENSITIVE

BUDGET-SENSITIVE

s9(2)(f)(iv)



Risks

27. One of the key purposes for the funding review is to ensure the Reserve Bank's future funding envelope represents value for money (i.e. maximising outcomes for a given cost). If the recommended review option is not agreed to this would reduce the likelihood of an efficient spending proposal. In turn, this may mean the Reserve Bank has less profit available to pay an annual dividend to the Crown. This may negatively impact on your goal to deliver enduring improvements to OBEGAL.
28. However, there are risks associated with the recommended option of having a Reserve Bank board led baseline review. The Reserve Bank board may fail to reprioritise its

s9(2)(f)(iv)



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expenditure sufficiently to achieve the 7.5% savings. In the 2024/25 Letter of Expectations, you outline an expectation that the Reserve Bank should strengthen its financial management of operating and capital expenses [T2024/5 refers]. Another risk is that the Reserve Bank's savings proposal results in under delivery on its key objectives. Although, we note that any such risks should appropriately be raised by the Reserve Bank as part of its baseline review. It is the Treasury's view that on balance, these risks can be managed by the Reserve Bank board which has full accountability for the Reserve Bank's operational and financial position and through your 2025-30 funding agreement decisions.

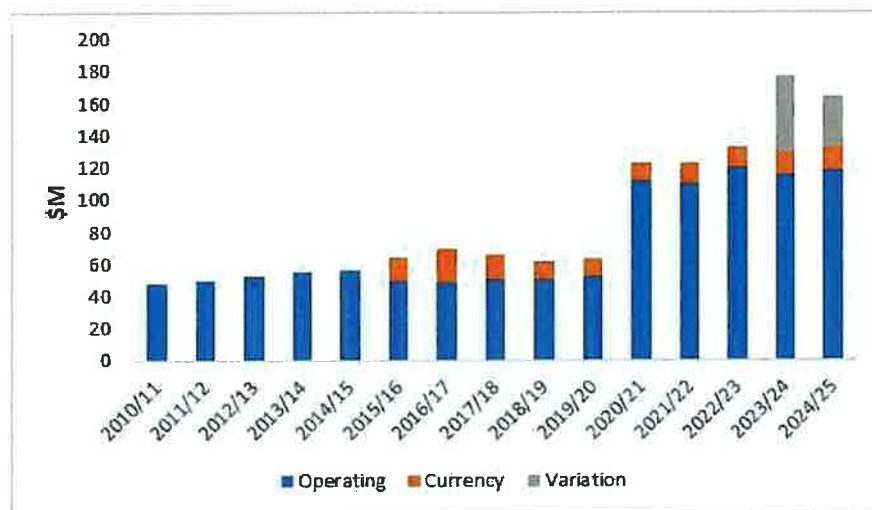
Next Steps

29. If you agree to the Treasury's recommendations, we request you send the attached letter to the Reserve Bank chair about the funding review scope and ^{§9(2)(f)(iv)} [REDACTED]
30. We will discuss your decisions with the Reserve Bank. This will include a timeframe for the funding review process and the timing of ^{§9(2)(f)(iv)} [REDACTED]

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Annex 1: Growth of funding and staff at the Reserve Bank

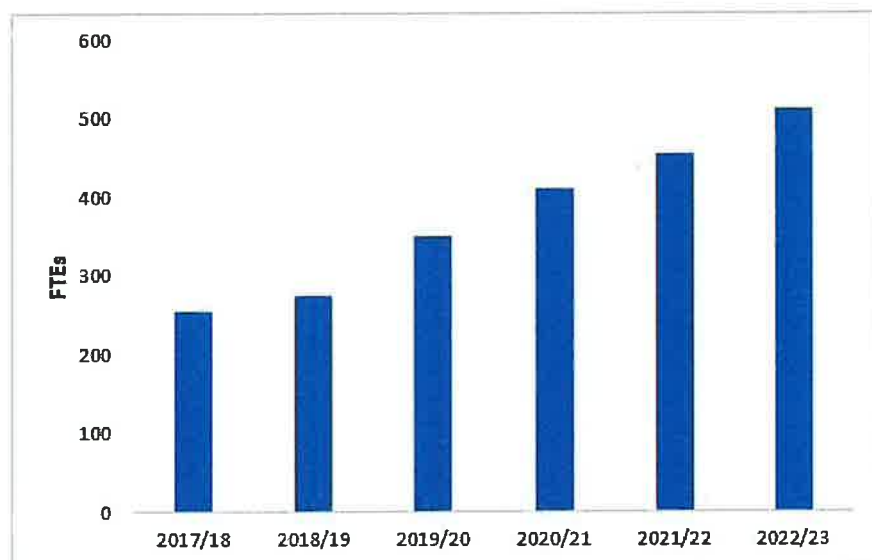
Reserve Bank funding levels specified by funding agreements, 2010/11-2024/25



Notes: The 2010-15 funding agreement only had one expenditure class for operating expenditure. The next two funding agreements (2015-20 and 2020-25) introduced an additional expenditure class for meeting direct net currency issue expenses. In 2023, a variation was agreed to the 2020-25 funding agreement which allocated more funding to the operating expenditure class.

Source: [Our funding agreements - Reserve Bank of New Zealand - Te Pūtea Matua \(rbnz.govt.nz\)](https://www.rbnz.govt.nz/our-funding-agreements)

Overall FTE growth, 2017/18-2022/23



Sources: Reserve Bank (2023), *Reserve Bank of New Zealand: Annual Report 2022-23*, Table 4: People Statistics, p.34; Reserve Bank (2022), *Reserve Bank of New Zealand: Annual Report 2021-22*, Table 6: Human Resources Statistics, p.50.

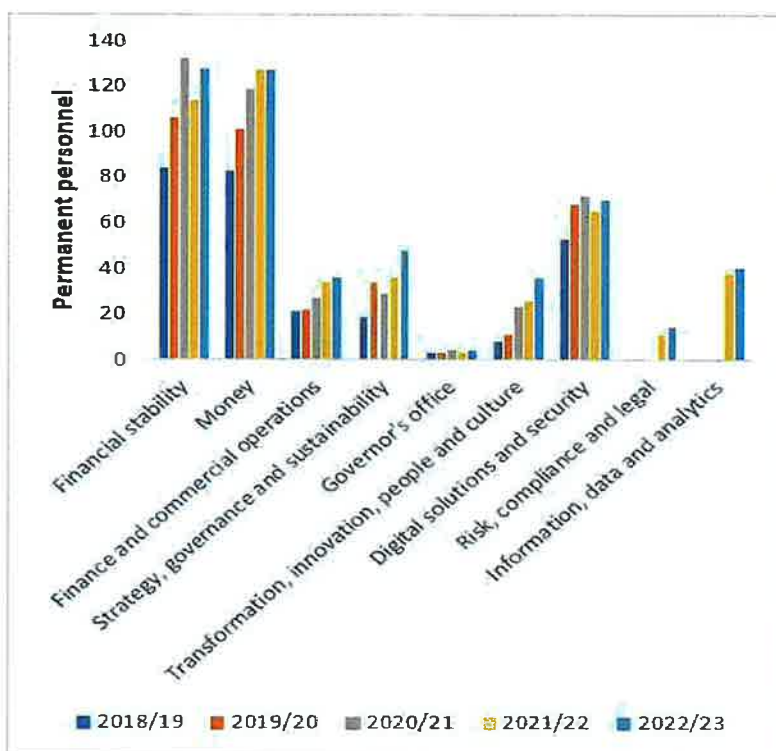
BUDGET-SENSITIVE

Comparison of Reserve Bank to Public Sector Departments FTE growth, 2017/18-2022/2023

Reserve Bank				Public Sector Departments		
Year	FTE	FTE Chg	% Chg	FTE	FTE Chg	% Chg
2017/18	255	-	-	49,730	-	-
2018/19	275	20	8	52,628	2,898	6
2019/20	349	74	27	57,149	4,521	9
2020/21	411	62	18	61,097	3,948	7
2020/22	454	43	10	60,381	-716	-1
2022/23	510	56	12	63,117	2,736	5
Totals	510	255	100	63,117	13,387	27

Sources: Reserve Bank (2023), *Reserve Bank of New Zealand: Annual Report 2022-23*, Table 4: People Statistics, p.34; Reserve Bank (2022), *Reserve Bank of New Zealand: Annual Report 2021-22*, Table 6: Human Resources Statistics, p.50; [Workforce Data - Occupation - Te Kawa Mataaho Public Service Commission](#)

Permanent employee growth by business unit, 2018/19-2022/23



Source: Reserve Bank (2023), "Funding Update", pp.54-55; Reserve Bank (2024), "Finance and Expenditure Committee: Review of the Reserve Bank of New Zealand 2022-23, responses to prehearing questions 1 to 156", pp. 53-54.

Notes: The Reserve Bank organisational structure was changed in 2017/18, which means 2017/18 data is not comparable by business unit to current data. A further organisational change occurred in 2021/22 with the creation of two new directorates (Information, Data and Analytics and Risk, Compliance and Legal). The information, data and analytics directorate was created by transferring resources from the financial stability group. Risk, Compliance and Legal was previously part of the Strategy, Governance and Sustainability group.

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Annex 2: The Treasury's value for money methodology for any proposed funding uplift

The Treasury's value for money review of any proposed funding uplift would use the Budget 2024 value for money methodology. The Treasury assesses value for money against three main categories: alignment, benefits and costs and delivery. As part of the analysis, the Treasury considers the distribution of benefits and costs and applies an equity lens across all categories, where possible.

s9(2)(g)(i)



The Reserve Bank of New Zealand Act 2021 provides mechanisms for the government priorities to be communicated to the Reserve Bank and given appropriate weight in decision-making in pursuit of objectives (e.g. the financial policy remit).

s9(2)(g)(i)



Hon Nicola Willis

Minister of Finance
Minister for the Public Service
Minister for Social Investment
Associate Minister of Climate Change



Professor Neil Quigley
Chair, Board of Directors
Reserve Bank of New Zealand

s9(2)(a)

Dear Neil

Expectations for the 2025-2030 Funding Agreement proposal and review process

I am writing to outline my expectations of the Reserve Bank of New Zealand's (the Reserve Bank's) 2025-2030 Funding Agreement proposal and review process.

It will be important that the Reserve Bank funding proposal considers the economic and fiscal environment and contains multiple options for funding. The Crown has been in operating deficit since 2019/20 with the level of government spending having increased significantly in recent years. In addition, high inflation and interest rates are creating significant cost of living pressures for New Zealanders and putting pressure on government finances. Careful fiscal management will be necessary to get the Government books back in order and ensure limited funds are directed towards the highest value investments.

To help address these challenges, the Government has established a Fiscal Sustainability Programme (FSP) focused on three interrelated objectives:

- generating sufficient reprioritisation, savings, and revenue measures to fund the Government's priorities and deliver enduring improvements in the operating balance before gains and losses (OBEGAL) position
- strengthening the public finance system to tighten fiscal discipline and embed a culture of continuously improving value for money, and
- ensuring collective ownership and accountability for the fiscal position and value for money at all levels of government.

The Government expects public sector organisations, including the Reserve Bank, to play their part in achieving these objectives. I am asking public sector entities to identify cost savings to contribute to fiscal sustainability.

I am aware the current 2020-25 Funding Agreement expires on 30 June 2025. A new funding agreement will need to be agreed with me. I expect we will agree the 2025-30 funding agreement in April 2025 to allow funding decisions to align with Budget 2025 processes.

As part of the Reserve Bank's funding proposal and the associated review process with the Treasury, I expect the Reserve Bank board to conduct a review of baseline expenditure. My expectation is that the objective of the baseline review is to generate savings of 7.5% of the Reserve Bank's 2024/25 budget extended out for four additional years. The Reserve Bank board is accountable for the Reserve Bank performing its functions efficiently and effectively and operating in a financially responsible manner, and this approach best preserves the Reserve Bank's operational independence. The Reserve Bank will have flexibility to determine how the

s9(2)(g)(i)

As part of the funding review process, the Reserve Bank board should provide the Treasury with a paper outlining its proposal to achieve savings. §9(2)(g)(i)

§9(2)(g)(i)
Information from this paper would then feed into funding review options developed by the Treasury.

In addition, the Treasury will review any funding uplift requested by the Reserve Bank in its proposal. I expect the Reserve Bank to consider reprioritising its existing funding to meet its spending before seeking any additional funding. The Reserve Bank should actively engage and collaborate with the Treasury on this review, including providing requested information.

To aid the Treasury's value-for-money review of any proposed funding uplift, I expect the Reserve Bank to provide the Treasury with robust business cases that contain:

- multiple options for funding
- clear articulation of how outcomes will be maximised for a given cost
- identification of fiscal and non-fiscal/direct and indirect benefits and costs and risks to benefits, which if possible are quantified and monetised
- reasonable fiscal costs and assumptions underlying costs, supported by evidence, and
- analysis of delivery risks, with particular attention to market and supplier capacity constraints.

§9(2)(f)(iv)
§9(2)(f)(iv)

Further Information

Your Treasury relationship managers will be in contact shortly after you receive this letter to discuss the contents of this letter in more detail. If you have any questions, please contact Dr Andrew Wood, Principal Advisor, Commercial and Institutional Performance §9(2)(k)
§9(2)(k) Alternatively, you can contact Lars Piepke Manager, Commercial and Institutional Performance on §9(2)(k)

I look forward to receiving the Reserve Bank's funding proposal and to working with the Reserve Bank.

Yours sincerely

Hon Nicola Willis
Minister of Finance

cc Adrian Orr, Governor Reserve Bank of New Zealand, §9(2)(a)

IN-CONFIDENCE



TE TAI ŌHANGA
THE TREASURY

Treasury Report: Reserve Bank of New Zealand: Draft Statement of Intent 2024-2028 and Statement of Performance Expectations 2024/25

Date:	9 May 2024	Report No:	T2024/987
		File Number:	CM-1-3-122-9-1

Action sought

	Action sought	Deadline
Minister of Finance (Hon Nicola Willis)	Indicate whether you have any feedback on the attached letter to the Chair of the Reserve Bank Agree to sign and send the attached letter to the Reserve Bank on the draft Statement of Intent 2024-2028 and Statement of Performance Expectations 2024/25	Before 21 May 2024 (noting this is the date the letter must be sent)

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Dr Andrew Wood	Principal Advisor, Commercial and Institutional Performance	+ (mob)	✓
Nick Cooke	Graduate Analyst, Commercial and Institutional Performance	N/A (mob)	
Lars Piepke	Manager, Commercial and Institutional Performance	(mob)	

Minister's Office actions (if required)

Please **send** any feedback to the Treasury with sufficient time to incorporate feedback and ensure that the Minister of Finance can send the attached letter to the Chair of the Reserve Bank by 21 May 2024, as required by the Reserve Bank of New Zealand Act 2021. **Return** the signed report to the Treasury.
Send the attached letter to the Reserve Bank on the draft Statement of Intent 2024-2028 and Statement of Performance Expectations 2024/25

Note any feedback on the quality of the report

Enclosure: Yes (attached)
[Letter to RB on draft SPE and SOI \(Treasury 4944234.3\)](#)
[RBNZ draft SPE 2024-25 \(Treasury 4958058.1\)](#)
[RBNZ draft SOI 2024-2028 \(Treasury 4958059.1\)](#)

RBNZ draft SPE and SOI withheld under s18(d) - links in reply letter

IN-CONFIDENCE

Treasury Report: Reserve Bank of New Zealand: Draft Statement of Intent 2024-2028 and Statement of Performance Expectations 2024/25

Purpose of Report

1. This report:
 - advises the Minister of Finance on the Reserve Bank of New Zealand's (Reserve Bank's) draft Statement of Intent 2024-2028 (SOI) and Statement of Performance Expectations 2024/25 (SPE), and
 - seeks agreement for the Minister of Finance to sign the attached letter to the Chair of the Reserve Bank, providing comments on the draft SOI and SPE and inviting them to finalise and publish the final SOI and SPE on the Reserve Bank's website.

Reporting Requirements

2. The Reserve Bank of New Zealand Act 2021 (the Act) requires the Reserve Bank to publish an SOI at least once every three years and an SPE every year. The Reserve Bank's current SOI was published in October 2022. While not required to publish a new SOI this year, the Reserve Bank has decided to refresh its SOI given changes to its operating environment and its performance framework.
3. The Reserve Bank is required to provide draft SOIs and SPEs to the Minister of Finance no later than two months before the start of the financial year.
4. Providing comments on the draft documents is an important lever for the Minister of Finance to influence the Reserve Bank's strategic direction. The Minister of Finance must provide any comments on the draft documents no later than **15 working days** after receiving the draft documents.
5. The Reserve Bank provided its draft SOI and SPE to the Minister of Finance on 30 April 2024. The Minister of Finance must provide any comments on the draft no later than 21 May 2024.
6. The Reserve Bank must send the final SOI and SPE to the Minister of Finance by 30 June 2024 and publish the final SOI and SPE on the Reserve Bank's website as soon as practicable after that.

Analysis

7. When assessing the Reserve Bank's draft SOI and SPE, we:
 - considered the alignment of the Reserve Bank's Strategic Issues Letter and draft SOI and SPE with the Minister of Finance's 2024/25 Letter of Expectations (LOE), and
 - assessed the quality of the SOI and SPE and checked compliance with the Act.

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The Reserve Bank's Strategic Issues Letter and draft SOI and SPE align with the LOE

8. In general, the Reserve Bank's draft SOI and SPE align to government priorities set out in the 2024/25 LOE. For example, the price stability objective is a key outcome mentioned in the SPE, while the SOI references activities to improve organisational maturity and key programmes of work that are mentioned in the LOE such as the Deposit Takers Act 2023 work.
9. The Chair of the Reserve Bank sent you a Strategic Issues Letter on 19 April 2024 to acknowledge the expectations in the LOE.
10. In general, the Strategic Issues Letter is well aligned to expectations in the LOE. The notable matters in the Strategic Issues Letter include:
 - The Reserve Bank will consider and respond to the Government's fiscal sustainability programme as the Reserve Bank prepares its proposal for the 2025-2030 Funding Agreement, and for other critical capital expenditure projects.
 - The primary focus of the Monetary Policy Committee (MPC) on price stability.
 - The need to continue to improve its performance framework.
 - The work in implementing the new prudential framework for deposit takers under the new Deposit Takers Act 2023.

Quality of the SOI and SPE and compliance with the Act

The strategy set out in the draft SOI aligns well to the Reserve Bank's purpose, functions and operating environment challenges

11. The draft SOI explains the Reserve Bank's strategic objectives using six strategic themes¹, which respond to six operating environment challenges². s9(2)(g)(i)
[REDACTED] in strategic intentions and how they relate to specific operating environment challenges.
12. The strategic themes seem well aligned to the Reserve Bank's purpose, functions, statutory objectives and key activities. The operating environment challenges capture the key risks.
13. The SOI also provides an adequate explanation of the nature and scope of the Reserve Bank's functions and how these will be managed to meet strategic intentions.
14. We have discussed the draft SOI with the Reserve Bank. s9(2)(g)(i)
[REDACTED] The Reserve Bank addressed this feedback in the draft SOI it provided you.

¹ Promoting understanding and trust; improving resilience; increasing participation; strengthening efficiency and competition; leveraging data, information and technology; people front and centre.

² It is becoming harder to maintain trust in public institutions; the world economy is experiencing substantial change; basic financial services are becoming more difficult for New Zealanders to access; Fintech innovation is promising competition and changes to the financial system; technological advancements bring both opportunities and threats; since COVID the way we work has changed.

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The draft SPE tells a clearer performance story than the previous SPE, s9(2)(g)(i)

15. A high quality SPE needs to tell a clear and compelling performance story. In turn, this involves reporting on what is important, providing a coherent account of performance and reporting on impacts and the contribution to outcomes.³
16. The Treasury and the Office of the Auditor General in its reporting have raised concerns about the quality of the Reserve Bank's previous SPEs [T2023/1913 refers]. In response, the Reserve Bank increased capability and focus on improving its performance framework, undertaking a multi-year project due to be completed in 2026/27. This year the Reserve Bank completed the first stage of the project, focused on ensuring there is a clear performance framework that links outputs, impacts and outcomes and a focus on measures for key outputs. In subsequent years, there will be a greater focus on organisational performance measures.
17. This work on the performance framework has led to significant progress in the Reserve Bank's SPE reporting. The draft SPE provides a greater focus on outcomes and its impacts on outcomes than the previous SPE. There is also a more complete account of services and how the functions of the Reserve Bank relate to those of the MPC. These changes enable a clearer performance story compared to the previous SPE.

18. s9(2)(g)(i)
- . In particular, the draft SPE would benefit from:

- ensuring there is clarity on the methodology used to measure key performance targets and that targets are as specific and measurable as possible.

s9(2)(g)(i)

- continuing to develop methods and targets related to communication, public engagement and stakeholders. The Reserve Bank's current approach is to undertake a qualitative assessment of transcripts from the media⁶ and public hearings⁷.

s9(2)(g)(i)

- s9(2)(g)(i)

³ Audit NZ, the Office of the Auditor General and the Treasury (2022), [good-practice-performance.pdf \(oag.parliament.nz\)](#)

s9(2)(g)(i)

⁶ On page 14 of the draft SPE, the Reserve Bank proposes to measure whether monetary policy decisions are effectively communicated by a qualitative assessment of post-launch media communications. On page 16 of the draft SPE, the Reserve Bank proposes to measure whether key messages reach intended audiences for Financial Stability Reports, Special Topic publications, thematic reviews and stress tests by qualitative post-launch communications assessments.

⁷ On page 21 of the draft SPE, the Reserve Bank proposes to measure "Parliament, through the Finance and Expenditure Committee (FEC), is supported to conduct effective oversight of the Reserve Bank". The method for this assessment is FEC's response to an annual request for feedback about the overall quality of assistance provided for the Reserve Bank's Annual Review, Financial Stability Reports and Monetary Policy Statements.

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19. We provided joint feedback, along with the Office of the Auditor General and the Reserve Bank's auditors (PwC), to the Reserve Bank on its draft SPE including:

s9(2)(ba)(i)



s9(2)(a)(i)

20.



The draft SOI appears to comply with requirements of the Act, but the draft SPE does not fully comply with the Act's requirements

21. The Reserve Bank's draft SOI appears to comply with the requirements of the Act.
22. The draft SPE does not fully comply with s230(2)(b) of the Act as there is no information on expected revenue and proposed expenses for the class of outputs. Linked to this, the forecast statement of comprehensive revenue and expense must also be prepared in a manner that allows for comparison with actual revenues and output expenses (s232(c) of the Act) and this information is currently missing.
23. We understand from the Reserve Bank that the missing financial information will be provided in its final SPE. It is the board of the Reserve Bank's responsibility to ensure the SPE and SOI complies with the requirements of the Act.

Next Steps

24. We recommend that the Minister of Finance agrees to sign the attached letter to the chair of the Reserve Bank by 21 May 2024 to meet the requirements of the Act.
25. The Reserve Bank is required to consider the Minister of Finance's comments as it finalises its SOI and SPE by 30 June 2024.
26. The Minister of Finance is required to present the Reserve Bank's final SOI and SPE with the Annual Report later in 2024.

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Recommended Action

We recommend you:

- a **indicate** whether you have feedback on the attached letter to the Chair of the Reserve Bank

No feedback/feedback provided.

- b **agree** to sign and send the attached letter to the Chair of the Reserve Bank subject to the incorporation of any feedback in **recommendation a**, by 21 May 2024.

Agree/disagree.

Lars Piepke
Manager, Commercial and Institutional Performance

Hon Nicola Willis
Minister of Finance

____/____/____

Hon Nicola Willis

Minister of Finance
Minister for the Public Service
Minister for Social Investment
Associate Minister of Climate Change



Professor Neil Quigley
Chair, Board of Directors
Reserve Bank of New Zealand

s9(2)(a)

Dear Neil

DRAFT STATEMENT OF INTENT 2024-2028 AND STATEMENT OF PERFORMANCE EXPECTATIONS 2024/25

I am writing to thank you for providing copies of the Reserve Bank of New Zealand's (Reserve Bank's) draft Statement of Intent (SOI) 2024-2028 and Statement of Performance Expectations 2024/25 (SPE).

Thank you for the time and effort that the Reserve Bank's board, management and staff have put into these documents.

The Reserve Bank has made significant progress in improving its performance reporting. I acknowledge the draft SPE provides a greater focus on outcomes and the Reserve Bank's impacts on outcomes than the previous SPE.

However, I encourage the Reserve Bank to consider the inclusion of a broad suite of measures in future SPEs. This will help to understand better how well the Reserve Bank is performing and making a difference in delivering services. Before the SPE is finalised, please consider making the following changes to the SPE:

- Ensuring there is clarity on the methodology used to measure key performance targets and that targets are as specific and measurable as possible. s9(2)(g)(i)

- Further develop methods and targets related to communication, public engagement and stakeholders. The Reserve Bank's current approach is to undertake a qualitative assessment of transcripts from the media and public hearings. s9(2)(g)(i)

- s9(2)(g)(i)

I understand you intend to provide financial information showing the expected revenue and proposed expenses for each reportable class of outputs in your final SPE. Please note that providing this information in a SPE is required under the Reserve Bank of New Zealand Act 2021.

Please consider the comments I have made in this letter before finalising the Reserve Bank's SPE.

Please deliver the final SOI and SPE to the House Office and me by 30 June 2024 and publish the final SOI and SPE on the Reserve Bank's website as soon as practicable after that date. Officials at the Treasury will advise the Reserve Bank shortly on the printed and electronic copies required to deliver the final SOI and SPE.

I wish you every success for the year ahead.

Yours sincerely

Hon Nicola Willis
Minister of Finance

cc Adrian Orr, Governor Reserve Bank of New Zealand, s9(2)(a)

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Performance Report on the Reserve Bank of New Zealand as at 31 December 2023

Date:	2 May 2024	Report No:	T2024/599
		File Number:	CM-1-3-122-7-3

Action sought

	Action sought	Deadline
Minister of Finance (Hon Nicola Willis)	Note to support improved performance of the Reserve Bank, we recommend you use a range of Ministerial levers over the next year	15 May 2024

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Catalina De Mendoza	Senior Analyst, Commercial and Institutional Performance	s9(2)(k)	n/a (mob) ✓
Lars Piepke	Manager, Commercial and Institutional Performance	s9(2)(g)(ii)	

Minister's Office actions (if required)

Return the signed report to the Treasury.

Note any feedback on the quality of the report

Enclosure: Yes – RBNZ One Pager

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Treasury Report: Performance Report on the Reserve Bank of New Zealand as at 31 December 2023

Executive Summary

This report provides the Treasury's performance assessment of the Reserve Bank of New Zealand (the Reserve Bank) for the financial half year ending 31 December 2023 and discusses the levers you could use to support improved performance.

The Treasury assess the performance of the Reserve Bank across four key dimensions: strategic alignment, leadership, organisation and results. These dimensions are summarised in Table 1. The key performance matters and recommended Minister actions are summarised below in Table 1.

Table 1. Key performance matters and recommended Minister actions

Strategic alignment ^{s9(2)(g)(i)}	
<ul style="list-style-type: none"> The Reserve Bank is implementing the Deposit Takers Act 2023 (DTA) and Depositor Compensation Scheme (DCS), with the DCS expected to commence mid-2025. Public consultation on DCS Regulations is expected to be completed in May 2024. The Reserve Bank is embedding changes to give effect to a primary focus on price stability (as single monetary policy mandate). The Board confirmed that Monetary Policy Committee (MPC) members had adequately discharged their respective responsibilities in relation to the price stability objective in 2022/23. Project Waitoa and Future of Money work programmes^{s9(2)(b)(ii) and s9(2)(ba)(i)} The Reserve Bank is investing in improving its performance reporting framework and incorporating feedback from the Office of the Auditor General (OAG) and the Treasury. 	
Actions:	
<ul style="list-style-type: none"> Provide comments in May 2024 on the draft 2024/25 Statement of Performance Expectations (SPE) and Statement of Intent (SOI) on the Reserve Bank's strategy and its implementation. Consider the Project Waitoa Indicative Business Case (expected in November 2024). Consider advice on DCS Regulations by the end of 2024. 	
Leadership ^{s9(2)(g)(i)}	
<ul style="list-style-type: none"> ^{s9(2)(b)(ii) and s9(2)(ba)(i)} The appointment of two external members of the MPC was confirmed. 	
Action:	
<ul style="list-style-type: none"> Provide a recommendation to the Governor-General on the reappointment of the Chair. Consider advice for a new board director after the resignation of Hinerangi Ada Raumati-Tu'ua. 	
Organisation ^{s9(2)(g)(i)}	
<ul style="list-style-type: none"> ^{s9(2)(b)(ii) and s9(2)(ba)(i)} The Reserve Bank continues to strengthen its financial planning maturity, it is implementing a programme to enhance its organisational culture and refreshing its Te Ao Māori strategy. 	
Actions:	
<ul style="list-style-type: none"> Provide feedback in May 2024 on any organisational initiatives in the SPE and SOI. Decide if any additional funding is required to enhance the Reserve Bank's ^{s9(2)(b)(ii)} in the 2025-30 Funding Agreement in early 2025. 	
Results ^{s9(2)(g)(i)}	
<ul style="list-style-type: none"> ^{s9(2)(ba)(i)} The Reserve Bank's financial position is sound. 	
Actions:	
<ul style="list-style-type: none"> Provide feedback in May 2024 on the SPE and SOI performance measures used to assess the Reserve Bank's results and its forecast for FY2024/25. In August 2024 consider the 2023/24 dividend recommendation from the Reserve Bank. 	

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Treasury Report: Performance Report on the Reserve Bank of New Zealand as at 31 December 2023

Purpose of Report

1. This report provides the Treasury's performance assessment of the Reserve Bank of New Zealand (the Reserve Bank) as at 31 December 2023 and discusses the levers you could use to support improved performance.

Background

The Treasury assists the Minister of Finance in managing the Crown's interest in the Reserve Bank

2. This report is an update of the advice sent in November 2023 on the Reserve Bank's Performance in FY2022/23 [T2023/1913]. The report takes a risk-based approach to assessing the Reserve Bank's performance, focusing on the areas of interest that will support the Minister of Finance to oversee and manage the Crown's interests in the Reserve Bank.
3. Consistent with the approach for other Crown companies and entities that we monitor, the Treasury's approach to assess performance includes four key dimensions:
 - **Strategic Alignment:** The alignment of the strategic direction of the Reserve Bank with its operating environment, core purpose and the Minister's expectations.
 - **Leadership:** The effectiveness of the Reserve Bank's board and management in providing leadership to the organisation.
 - **Organisation:** Organisational design, public disclosure and asset management.
 - **Results:** Policy and financial results of the Reserve Bank against its statutory objectives and effective use of Crown resources.
4. These dimensions are summarised s9(2)(g)(i)
 The Treasury does not perform an independent assessment of monetary policy formulation as this role is performed by the Reserve Bank board. The scope of the Treasury's role in monitoring monetary policy is limited to assessing the organisational aspects of the Reserve Bank that affect the advice given to the Monetary Policy Committee (MPC) and the implementation of monetary policy.

Strategic Alignment s9(2)(g)(i)

Implementation of the Deposit Taker Act 2023 (DTA) and the Depositor Compensation Scheme (DCS) are on-track to be delivered within revised timeframes

5. The Reserve Bank board has approved the business cases for the implementation programme of the DTA and the DCS. The DCS will now commence in mid-2025 (instead of late 2024) given industry feedback on the time required to have systems in

1 s9(2)(g)(i)

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place before the implementation. s9(2)(ba)(i) and s9(2)(g)(i)

6. The Reserve Bank is confident the programme is on track for the DCS to commence in mid-2025 and has been working on mitigating the programme risks. s9(2)(ba)(i)

7. All DTA standards required to meet the new regime under the DTA Act are still expected to be completed by July 2028. s9(2)(ba)(i) and s9(2)(g)(i)

8. s9(2)(ba)(i) and s9(2)(g)(i)

9. Regarding the next steps, the public consultation for DCS Regulations (including the DCS levy) will be concluded by May 2024. This will inform the implementation of DCS regulations by October 2024, providing the industry with sufficient time before the DCS commences, in mid-2025.

Project Waitoa and Future of Money work programmes s9(2)(ba)(i) and s9(2)(g)(i)

10. Project Waitoa is the Reserve Bank's new vaulting and cash processing solution. s9(2)(b)(ii) and s9(2)(ba)(i)

11. The Reserve Bank Future of Money programme aims to strengthen New Zealand's cash system following decades of underinvestment and changes in the industry's dynamics and consumer behaviour. s9(2)(ba)(i)

Several of these workstreams have been s9(2)(ba)(i) including cash system redesign, central bank digital currency and payments due to design complexities and stakeholder feedback.

12. The Future of Money programme is becoming more urgent as consumer behaviour and industry change continues accelerating (i.e., bank withdrawal of branch and ATM services). It is expected that the Reserve Bank makes significant progress in the next

2. s9(2)(ba)(i) and s9(2)(g)(i)

3. s9(2)(ba)(i)

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year, including Cash Trials commencing in September 2024 and Digital Cash consultation starting in April 2024 with a business case developed during 2026.

Targeting low and stable inflation is the primary focus of monetary policy

13. The Reserve Bank's core functions and objectives are dictated by legislation. In December 2023, the Reserve Bank of New Zealand Act 2021 (the Act) was amended to remove the Reserve Bank's economic objective to support maximum sustainable employment. This legislation means that the primary focus of the MPC is to achieve price stability when making monetary policy decisions. While the change does not significantly impact the Reserve Bank's operations, the MPC must formulate⁴ and the Reserve Bank must implement monetary policy directed to the single economic objective.
14. The Act requires the Reserve Bank to review and assess the formulation and implementation of monetary policy at least every five years. The first Review and Assessment of the Formulation and Implementation of Monetary Policy (RAFIMP) was published in November 2022 covering the period from 2017-2022.
15. On the assessment of the MPC the board should consider the single economic objective alongside any improvement opportunities recommended by RAFIMP. As the board has visibility over the information prepared by the Reserve Bank and received by the MPC, it can obtain assurance that the MPC is considering the above when formulating monetary policy.
16. The Reserve Bank board's 2022/23 annual assessment of the MPC's performance confirmed that MPC members had adequately discharged their respective responsibilities in relation to the price stability objective. The board is required to provide an assessment of the MPC every year in the Annual Report.

The Reserve Bank has improved its performance framework

17. s9(2)(ba)(i) and s9(2)(b)(ii)
The OAG has provided recommendations, which the Reserve Bank has committed to further develop over the coming year.
18. The Reserve Bank has improved its performance framework, taking into consideration feedback from the OAG and the Treasury. The Reserve Bank's draft 2024/25 Statement of Performance Expectations (SPE) provides a new outcomes-based performance reporting framework structured around three external facing outcomes showing how the Reserve Bank delivers value for New Zealand. s9(2)(g)(i)
We will provide separate advice on the draft SPE in May 2024 [T2024/987 refers].

Leadership

19. s9(2)(b)(i)
the reappointment of Professor Neil Quigley as the Reserve Bank Chair [TR2023/1668 refers]. The reappointment of Professor Quigley for an additional two years from 1 July 2024 provides stability to the board's leadership. The board will continue to benefit from his expertise in central banking, monetary policy and governance.

⁴ The MPC Remit requires the MPC to have regard to the stability of New Zealand's financial system and to avoid unnecessary instability in output, employment, interest rates and the exchange rate.

⁵ s9(2)(ba)(i) and s9(2)(b)(ii)

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20. We note that the Chair's reappointment is subject to approval at Cabinet Appointments and Honours Committee (APH) on 7 May 2024 and Cabinet on 13 May 2024. As at 30 April 2024, feedback from the multi-party consultation indicates parties do not have any concerns with the reappointment. Once approved by Cabinet, you will provide a recommendation to the Governor-General on the reappointment.
21. The recent resignation of Hinerangi Ada Raumati-Tu'ua, effective 2 April 2024 has created a vacancy in the board. Ms Raumati-Tu'ua has been appointed to the board of the Guardians of New Zealand Superannuation, which led to her resignation due to conflict of interests. We will provide you with separate advice for the recruitment of a new director in May 2024. No additional appointments decisions are required until 2025.
22. There is no other significant risk in the leadership dimension. However, we note the Governor is the CEO, a board member⁶ and the Chair of the MPC⁷. This is particular to the Reserve Bank and unusual in the public service as generally with governance across the public sector there is clear separation between the board and management.
23. In terms of the MPC, Carl Hansen and Prasanna Gai were recently appointed as new external members. No additional appointments decisions are required until 2025.
24. We acknowledge there has been commentary from the media related to the leadership of the Reserve Bank, however the board is functioning well and has not raised any concerns regarding the Reserve Bank management team. In addition, the Treasury's engagement with the Reserve Bank and reporting provided by the Reserve Bank has not highlighted any leadership concerns.

Organisation

s9(2)(g)(i)

s9(2)(ba)(i), s9(2)(g)(i) and s9(2)(b)(ii)

25. The Reserve Bank has substantially invested in improving IT infrastructure resilience, data management, and cybersecurity controls. s9(2)(ba)(i), s9(2)(g)(i) and s9(2)(b)(ii)

26. s9(2)(ba)(i), s9(2)(g)(i) and s9(2)(b)(ii)

27. Additional funding of s9(2)(b)(i) for Digital Services and Security provided in the variation to the 2020-25 funding agreement has supported projects to s9(2)(ba)(i) s9(2)(ba)(i), s9(2)(g)(i) and s9(2)(b)(ii)

28. s9(2)(ba)(i), s9(2)(g)(i) and s9(2)(b)(ii)

⁶ It is required under section 82 of the Act.

⁷ Section 73 of the Act includes some protections to manage the Governor's membership of both the Reserve Bank's board and the MPC. In particular, the Governor does not take part in discussions and decisions of the board relating to reviewing the performance of the MPC and its members, and regarding the performance of the Governor.

⁸ s9(2)(ba)(i), s9(2)(g)(i) and s9(2)(b)(ii)

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s9(2)(ba)(i), s9(2)(g)(i) and s9(2)(b)(ii)

The Reserve Bank has strengthened its financial planning maturity, and continues to focus on enhancing its long term planning and forecasting

29. The Reserve Bank continues improving its financial planning maturity to support quality-decision making. Over the last two years, the Reserve Bank has made significant improvements to its financial management, reporting and performance management systems.

30. The focus over the next two years is to improve strategic long-term financial planning and forecasting. s9(2)(ba)(i)

31. s9(2)(ba)(i)

32. The August 2023 funding agreement variation provided funding to improve s9(2)(b)(ii) and s9(2)(ba)(i)

There are improvement opportunities on the Reserve Bank's Kaitiakitanga strategic pillar and stakeholder engagement

33. The Reserve Bank's Kaitiakitanga strategic pillar focuses on the organisation's capabilities and operating model. s9(2)(ba)(i) and s9(2)(g)(i)

34. The Reserve Bank is working on refreshing its Te Ao Māori strategy. Some milestones for 1HY24 have been delayed due to prioritisation of work within the team which led to an amber rating in 1HY24 SOI report. s9(2)(ba)(i)

Results

s9(2)(g)(i)

35. In 1HY24, the Reserve Bank showed s9(2)(ba)(i)

36. The sections below cover the Reserve Bank's main performance issues against each objective. Further detail on the Reserve Bank's performance against SPE (short-term) and SOI performance measures (long-term) is shown in Annex 1.

9 s9(2)(ba)(i) and s9(2)(g)(i)

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Economic Objective

37. The Reserve Bank's Economic Objective is to achieve and maintain price stability over the medium term. While inflation continues to be above target levels it is the board's responsibility to assess the performance of the MPC. The Reserve Bank and the MPC are working on adopting the RAFIMP¹⁰ recommendations on the formulation and implementation of monetary policy to strengthen its decision-making. It is the board's responsibility to ensure these are adopted.

38. The Reserve Bank's 2023/24 SPE includes six measures that assess the support from the Reserve Bank to the MPC in the formulation and the implementation of monetary policy.¹¹ For 1HY24, s9(2)(ba)(i)

39. The Reserve Bank manages settlement cash in the banking system to facilitate payments and settlement flows.¹² s9(2)(b)(ii) and s9(2)(ba)(i)

40. s9(2)(ba)(i)

Financial Stability Objective

41. The Reserve Bank's Financial Stability Objective focuses on having a resilient financial system that supports New Zealand's economic activity. s9(2)(ba)(i)
The Reserve Bank's *Financial Stability Report* assesses and reports on the health and efficiency of New Zealand's financial system. The next report will be published in May 2024. The previous report (published in November 2023) noted that the financial system remains sound in the higher interest rate environment.

42. s9(2)(ba)(i)

¹⁰ Under section 131 of the Act, the Reserve Bank commissioned the RAFIMP for the period 2017-2022. The review found that the easing in monetary policy was largely warranted during the pandemic. It also observed the additional monetary policy tools were effective in restoring functionality to the financial system. However, the review concluded that, in hindsight, monetary policy should have been tightened earlier in 2021. The RAFIMP included nine recommendations to improve monetary policy performance, and these are set out in the following link: [rbnz.govt.nz/-/media/project/sites/rbnz/files/publications/monetary-policy-statements/2022/rafimp--in-retrospect-monetary-policy-in-new-zealand-2017-22.pdf](https://www.rbnz.govt.nz/media/project/sites/rbnz/files/publications/monetary-policy-statements/2022/rafimp--in-retrospect-monetary-policy-in-new-zealand-2017-22.pdf)

¹¹ MPC outputs and performance measures are not included in the Reserve Bank's SPE or SOI, as setting specific targets could undermine the independence of the MPC and the board's statutory responsibility for monitoring the performance of the MPC.

¹² The Reserve Bank conducts operations and offers facilities where market participants can borrow and deposit settlement cash – the electronic cash held in accounts with the Reserve Bank to settle payments between commercial banks – to ensure that trading in these markets stays close to the OCR.

¹³ s9(2)(b)(ii) and s9(2)(ba)(i)

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43. The Commerce Commission (Com Com) released a draft report of the Market Study into personal banking on 21 March 2024. The Com Com considers that there is limited competition in the market and that there are no disruptive forces to drive change and deliver consumer benefits. The Com Com made some recommendations to enhance the regulatory environment, including for the Reserve Bank to consider the competitive effects of its decisions and policies. s9(2)(g)(i)

The Reserve Bank has made a submission to the Com Com, in response to the findings. The final report is due by 20 August 2024.

Central Bank Objective

44. The Central Bank Objective includes managing foreign reserves, meeting the cash needs of the public, providing liquidity facilities, providing and operating payment and settlement systems for New Zealand's financial institutions, and liaising and cooperating with other central banks and relevant institutions.
45. Performance against the Central Banking Objective has been mixed. s9(2)(b)(ii) and s9(2)(ba)(i)

46. Performance from a long-term perspective as measured in the SOI s9(2)(b)(ii) and s9(2)(ba)(i)

47. South Pacific stakeholder engagement (SOI 3) s9(2)(ba)(i) reflects the scale and complexity of Pacific banking challenges. We understand that progress has been made in building and maintaining relationships. s9(2)(ba)(i) and s9(2)(g)(i)

This is a multi-national, multi-year, multi-agency work-stream.

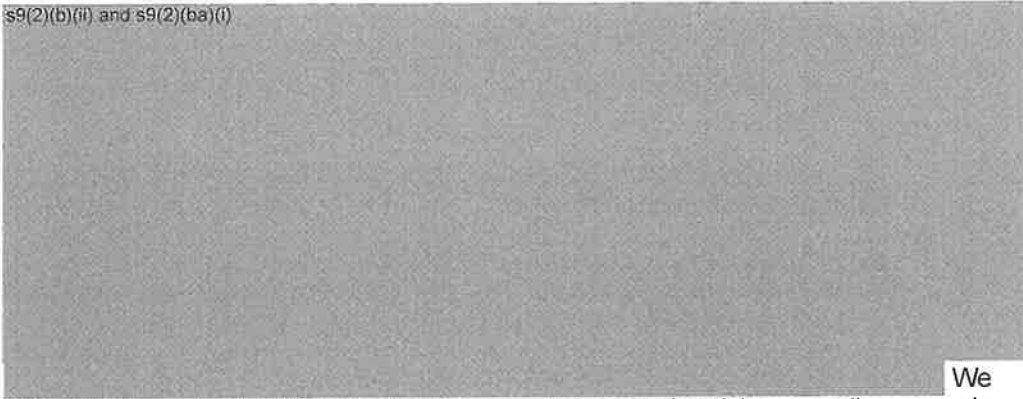


48. Changes in the cash-in-transit service industry might impact the Reserve Bank's cash services. Armourguard Security (AS) is seeking regulatory permission to acquire AMC, one of two cash-in-transit service companies in New Zealand that can meet Reserve Bank's cash needs. The approval might take a few months, but if approved, the transition could s9(2)(g)(i)
49. The implementation of the Foreign Reserves Coordination Framework (FRCF) has had satisfactory performance to date and no issues were identified in the Reserve Bank's reporting.

Financial Overview of the Reserve Bank I

50. The Reserve Bank's financial position is sound. The 1HY24 financial results show an s9(2)(b)(ii) and s9(2)(ba)(i)

51.

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52.  We will continue monitoring the spending to ensure the execution risks are well managed and outcomes are being delivered.
53. The Reserve Bank uses its balance sheet to implement monetary policy decisions and manage financial stability risks. Between June 2023 to December 2023, the Reserve Bank's net assets/equity increased from \$3 billion to \$5 billion.  These changes were in alignment with increases to the Reserve Bank's Target Capital Level, which determines minimum equity levels the Reserve Bank should hold to cover a prudent range of financial risks.
54. As at 31 December 2023, the Large Scale Asset Purchases (LSAP)¹⁷ programme had realised losses of \$5.1 billion, unrealised losses of \$5.2 billion (Crown indemnity) and a fair value of \$36.8 billion. The programme is expected to be wound down by June 2027.
55. 

Recommended Minister actions based on the Treasury's assessment

56. There are several mechanisms through which the Minister of Finance can support improvements to the Reserve Bank's performance (see Annex 2 for details). We have included some actions below, considering the order in which you will be required to make decisions.

2024/25 SPE and SOI business planning round

57. The Reserve Bank will provide a draft SPE and SOI for your feedback by 30 April 2024.¹⁸ Providing comments on the draft accountability documents is an important means by which you can influence the Reserve Bank's strategic direction and performance.

14. 
15. The amendment to the Reserve Bank's funding agreement was approved in June 2023. 
16. Holding reasonable foreign currency reserves allows the Reserve Bank to intervene in foreign currency markets for financial stability reasons to help keep the market functioning during a period of severe market dysfunction or intervene for monetary policy purposes to smooth NZD fluctuations so they do not place undue pressure on certain parts of the economy and affect inflation.
17. On 23 February 2022 the MPC agreed to commence the gradual reduction of the Reserve Bank's bond holdings under the LSAP programme through both bond maturities and managed sales.
18. Under the Act, the Reserve Bank is required to publish an SPE before the start of each financial year. The Act also requires the RBNZ to produce an SOI at least every three years. The Reserve Bank's current SOI was published in October 2022, covering the period to 30 June 2026. However, the Reserve Bank has decided to also update its SOI this year.

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58. This will be an opportunity for the Minister to:
- consider any changes in strategy as a result of changes in the Monetary Policy mandate,
 - provide feedback on the progress of the Reserve Bank's performance framework and key performance indicators,
 - get an update on any changes in the Reserve Bank's key projects and programmes including the DCS/DTA, Project Waitoa and Future of Money and reinforce the expectation on appropriate delivery of these projects,
 - consider the budget for the next financial year.
59. We will provide separate advice on the draft SPE and SOI in May 2024.

Board Appointments

60. Board appointments provide an opportunity to ensure there are the appropriate skills and experience on the board to govern the Reserve Bank's achievement of outcomes.
61. You have decided to reappoint Professor Neil Quigley as the Reserve Bank Chair. His appointment is subject to approval at APH and Cabinet. Once approved, you will provide a recommendation to the Governor-General on the reappointment.
62. Due to Hinerangi Ada Raumati-Tu'ua's resignation, you have the opportunity to make a recommendation to the Governor-General on the appointment of a new board director. We will provide you with separate advice for the recruitment of a new director in May 2024.

Funding review for the Reserve Bank 2025-2030 funding agreement

63. The funding review provides an opportunity to ensure proposed expenditure for the 2025-30 period is efficient. The Treasury will provide you advice on the Reserve Bank's funding proposal in early 2025. This will be informed by a Treasury value for money review of proposed increases to the baseline and a Reserve Bank review of the baseline with a savings target of 7.5%. We recommend reaching an agreement with the Reserve Bank for the 2025-30 funding agreement by April 2025 to align with other major funding decisions in Budget 2025.

Next steps

64. The Reserve Bank will send you its draft SPE and SOI by 30 April 2024. You will have 15 working days to provide comments on the draft documents after receiving them. The Treasury will provide you with advice on the draft documents in early May 2024. The Reserve Bank board will consider your feedback and finalize the documents before the start of the 2024/25 financial year.
65. Our next performance assessment will be provided in the performance report for the year ending 30 June 2024, due to be provided to you by the end of September 2024.
66. The Reserve Bank is aiming to provide the Project Waitoa Indicative Business Case in November 2024, on which the Treasury will provide you with advice.

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Recommended Action

We recommend you:

- a **note** as at 31 December 2023 the Reserve Bank has performed reasonably well, but there continue to be opportunities to improve its performance.
- b **note** to support improved performance of the Reserve Bank we recommend you use the following Ministerial levers over the next year:
- provide a recommendation to the Governor-General on the reappointment of Professor Quigley as the Chair of the Reserve Bank subject to approval at Cabinet Appointments and Honours Committee (7 May 2024) and Cabinet (13 May 2024)
 - provide comments on the draft 2024/25 accountability documents (Statement of Intent and Statement of Performance Expectations) in May 2024
 - appointment of a new board director after considering the Treasury's advice, which will be provided in May 2024
 - consider the recommendation on the 2023/24 dividend from the Reserve Bank in August 2024
 - decide whether to approve the Project Waitoa Indicative Business Case (likely in November 2024)
 - consider advice on the DCS Regulations from the Reserve Bank at the end of 2024
 - reach an agreement with the Reserve Bank on the level of funding for the 2025-2030 Funding Agreement period by April 2025.

Lars Piepke
Manager, Commercial and Institutional Performance

Hon Nicola Willis
Minister of Finance

_____/_____/_____

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Annex 1: Performance against 1HY24 SPE and SOI measures

Statement of Performance Expectations

Output one – Monetary Policy		s9(2)(ba)(i)
1.	We monitor and assess the MPC against the MPC Remit, Charter and Code of Conduct, with a formal review on an annual basis	
2.	We have provided MPC with high quality research, forecasts and analysis to ensure monetary policy decisions are made in a fully informed manner consistent with the MPC's remit.	
3.	We are transparent and effective in our communications on monetary policy to media, the public, government and market participants.	
4.	We conduct operations in financial markets and provide standby facilities to implement monetary policy and ensure that short-term market interest rates are within our Board approved tolerance ranges.	
5.	Our foreign reserves are effectively managed within the range set by the Minister of Finance to support economic objectives and to ensure markets operate in an orderly fashion.	
6.	We monitor and manage the level of banking system settlement cash to be within target ranges to facilitate the settlement of day-to-day financial transactions and provide emergency liquidity assistance in extraordinary circumstances.	
Output two – Financial Stability and Prudential Regulation and Supervision		
7.	We identify, monitor and assess financial stability risks and promote public awareness and understanding of these risks and our responses.	
8.	We supervise regulated entities and investigate instances of non-compliance with sectoral legislation, policy and standards; take action when required to ensure non-compliance is rectified; and if, appropriate, bring enforcement action against non-compliant entities.	
9.	We develop, adapt and implement prudential regulatory tools, taking action when appropriate to address identified opportunities, risks and gaps.	
Output three – Stewardship of money, cash and payments		
10.	Our payments and settlement systems meet or exceed 99.95% availability on an annual basis and a minimum of 75% of our customers rate our service as satisfactory or better in our annual customer survey.	
11.	We monitor and maintain an efficient, resilient and sustainable cash system that meets the public's needs.	
12.	We explore the future of money and payments to ensure they are reliable, efficient and support innovation and inclusion.	
Output four – Engaging with stakeholders and cooperating with regulatory agencies and other relevant institutions		
13.	We undertake a range of engagements with both domestic and international stakeholders to support an understanding of our objectives and key decisions and learn and collaborate on longer-term strategic challenges.	
14.	We engage effectively with regulated entities and target at least 75% of respondents rating us as a minimum of 4 out of 5 or equivalent in our annual relationship charter survey.	
15.	We take a systemic approach and contribute to a sustainable, inclusive and productive economy through our own activities and effective and coordinated partnerships with stakeholders.	
16.	We operate in a financially responsible manner by managing our expenditure in line with our funding agreement as approved by the Minister of Finance.	

s9(2)(ba)(i)

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Statement of Intent commitments

		s9(2)(ba)(i)	FY23 Status
SOI commitments			
Sol 1	Working with our stakeholders: Financial Inclusion		G
Sol 2	Working with our stakeholders: Climate Change		G
Sol 3	Working with our stakeholders: South Pacific		A
Sol 4	Working with our stakeholders: Te Ao Maori / Te Waka Hourua		G
Sol 5	Working with our stakeholders: Improving our cyber resilience		G
Sol 6	Ngā Pūtake: Embed the Reserve Bank of New Zealand Act 2021		G
Sol 7	Ngā Pūtake: Review of the Reserve Bank's foreign reserves and financial resources		G
Sol 8	Te Tariwai: Supporting the evolution of payments		G
Sol 9	Te Tariwai: Payments industry projects – ISO 20022 and SCI365		G
Sol 10	Te Toto: Monetary Policy Committee Remit Review		G
Sol 11	Te Toto: Evolution of money and cash system redesign		R
Sol 12	Ngā Pekanga: Deposit Takers Bill complete and operational		A
Sol 13	Ngā Pekanga: Depositor Compensation Scheme		A
Sol 14	Ngā Pekanga: Interim Insurance (Prudential Supervision) Act/Solvency Standards		A
Sol 15	Ngā Pekanga: Intensification of supervision and enforcement		G
Sol 16	Ngā Pekanga: Financial Market Infrastructure Act implementation – standards and designations		G
Sol 17	Kaitiakitanga: Connected culture and healthy organisation		G
Sol 18	Kaitiakitanga: Courageous and inclusive leadership		G
Sol 19	Kaitiakitanga: Thriving people		G
Sol 20	Kaitiakitanga: Enabled by data and technology		A
Sol 21	Kaitiakitanga: Connected operations		A

Key:

G – On track – meeting all of its milestones and progressing to expected timeframe

A – At risk – key deliverables delayed, paused and/or not meeting all milestones. Minor or moderate investment and monitoring needed.

R – Not progressing to intended timeframe and/or experiencing significant delays and/or impacting the Reserve Bank's wider priorities. Major investment or change in approach needed.

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Annex 2: Ministerial levers to support performance improvements at the Reserve Bank

There are several mechanisms through which the Minister of Finance can support performance improvements at the Reserve Bank. We outline below the main levers, however it is important to note that there are other levers outside of this list.

Board engagement: The Minister can meet with or write to a board's Chair on a performance issue or proposal.

Request information about operations and performance: The Minister can request the Reserve Bank's board supply them with any information about the operations and performance of the Reserve Bank (s196 of the Act).

Board appointments: The Minister makes recommendations to the Governor-General on board appointments decisions in the board appointments process and can recommend to the Governor-General changes to board's composition to strengthen performance (subject to requirements in the Act).

MPC appointments: The Minister makes decisions on the appointment of external members to the MPC based on the board's recommended candidates.

Statement of Performance Expectations or Statement of Intent feedback: The Minister can provide feedback on the draft Statement of Intent (SOI) or Statement of Performance Expectations. The Minister can require the Reserve Bank to provide a new SOI at any time, and the Reserve Bank must consider any comments the Minister makes finalising the SOI (s218 and s223 of the Act).

Letters of Expectations: The Minister can set out his expectations in an annual (or as required) Letter of Expectations.

Funding Agreements: Funding agreements must be agreed between the Minister and the Reserve Bank (s209 of the Act). This provides the Minister with an opportunity to influence investment priorities when funding agreements are negotiated every five years.

Financial Policy Remit: The Minister may amend or replace the Financial Policy Remit at any time after consulting the Reserve Bank (s203 of the Act).

Remit for Monetary Policy Committee (MPC): The Minister may issue an MPC Remit at any time. Before an MPC Remit is issued the Minister must consult the Reserve Bank (s122; schedule 3, clause 8 of the Act).

Direct the Reserve Bank on minimum level of capital and financial risk management: The Minister may direct the Reserve Bank to take all reasonable steps to maintain a minimum level of capital specified by the Minister and the Reserve Bank must have regard to the Minister's expectations on financial risk management (s208 of the Act).

Direct the Reserve Bank to deal in foreign exchange within guidelines: The Minister may, for the purpose of influencing the exchange rate or exchange rate trends, direct the Reserve Bank to deal in foreign exchange within guidelines set out by the Minister (s134 of the Act).

Review of the Reserve Bank's operations and performance: The Minister can commission a review of the operations and performance of the Reserve Bank (s194 of the Act). Before the review is undertaken the Minister must consult with the Reserve Bank on the purpose and nature of the review and consider submissions by the Reserve Bank on the proposed review.

Reserve Bank of NZ

(RBNZ)

Key performance matters

- ❖ Appropriate implementation of the DCS by mid-2025 is a priority of the RBNZ. s9(2)(ba)(i)
The programme is on track to be delivered within this timeframe.
- ❖ The RBNZ continues to invest in improving its performance reporting framework, s9(2)(ba)(i) and financial planning.
- ❖ The RBNZ's Future of money programme and upgrade to its vaulting and cash processing infrastructure (Project Waitoa) s9(2)(ba)(i)
- ❖ The reappointment of the Chair for an additional two years provides stability to the Board, s9(2)(g)(i)

Recommended actions

- ❖ Recommended Ministers' actions are:
 - I. Consider the Treasurers' advice on the RBNZ's SPE and SOI* in May 2024. This is an opportunity to provide feedback on the new performance framework.
 - II. Make a recommendation to the Governor-General on the appointment of a new board director.
 - III. Decide whether to approve the Project Waitoa Indicative Business Case in November 2024.
 - IV. Consider advice on the RBNZ's 2025-30 funding proposal in April 2025.
- ❖ The Treasury is preparing advice for Ministers' to support the items above.

Performance | HY24

- 21.04 s9(2)(b)(ii) and s9(2)(ba)(i)
- 21.04 In 1HY24 the RBNZ's net assets/equity increased from \$3.0 bn to \$5.0 bn, in alignment with the increase of the RBNZ's target capital level to \$4.2 bn.
- 21.04 The RBNZ achieved s9(2)(g)(i) for its economic and financial stability objectives based on its SPE and SOI measures. s9(2)(g)(i)
- 21.04 The funding review for the 2025-30 FYFA*** will include an RBNZ baseline review seeking 7.5% savings and a Treasury review of additional funding.
- 21.04 s9(2)(ba)(i)
- 21.04 Outlook: the RBNZ has s9(2)(g)(i) The 2025-30 funding review provides an opportunity to ensure proposed expenditure demonstrates value for money.

OVERVIEW

The RBNZ has a range of functions related to achieving its economic, financial stability and central bank objectives.

The RBNZ's priorities are the implementation of the Deposit Takers Act 2023 (DTA) and Depositor Compensation Scheme (DCS) alongside progressing Project Waitoa and the Future of money programme.

The RBNZ is working towards improving its s9(2)(ba)(i) financial planning, and performance framework functions.

s9(2)(g)(i)

HY ended 31st December		Actual	Budget	Variance
NZDm		HY23	s9(2)(b)(ii) and s9(2)(ba)(i)	
P&L	- Interest (net)	156		
	- Mark to market	(102)		
	- Forex	(23)		
	- Other	11		
	Income	42		
FYFA*	Opex	77		
	NPAT	(35)		
	Spent	66		
	Board approved	71		
	Over/(under) spent	(5)		
Capital	%	(7.0%)		
	Equity** - Actual	2,380		
	Equity** - Target	2,400		
	Over/(under) target	(20)		
	Dividends	-		
Opex	Personnel	39		
	Professional services	14		
	Projects	8		
	Currency issue expense	5		
	Other	11		
Other	LSAP Crown indemnity	9,252		
	FTEs	493		

* Statement of Performance Expectation and Statement of Intent

** Excluding unrealised gains

*** Five Year Funding Agreement