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Report of the

# REMUNERATION AUTHORITY

for the year ended  
30 June 2011

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Presented to the House of Representatives Pursuant to  
Section 27 of the Remuneration Authority Act 1977

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October 2011

Hon Kate Wilkinson  
Minister of Labour  
Parliament Buildings  
**WELLINGTON**

Dear Minister

I have the honour to submit the Annual Report of the Remuneration Authority for the year ended 30 June 2011 in accordance with section 27 of the Remuneration Authority Act 1977.

Yours sincerely

John Errington  
**Chairman**

## **REPORT OF THE REMUNERATION AUTHORITY FOR THE YEAR ENDED 30 JUNE 2011**

### **Overview**

This report covers the 12 months to 30 June 2011.

During this period there have been some significant events which have impacted on New Zealand's economic environment – the Canterbury earthquakes and the continuing effects of the global financial crisis – which has had some effect on the Authority's remuneration determinations.

The Authority has embarked on some reviews of how it goes about setting remuneration for elected members of local authorities, and for the judiciary.

### **Jurisdiction**

The Authority's jurisdiction covers:

- The salaries, basic expense allowance and office-holder allowance of Members of the House of Representatives;
- The remuneration of a wide range of statutory officers;
- The salaries and principal allowances of members of the Judiciary;
- The remuneration, allowances and expenses payable to the elected members of local authorities.

In addition, the Authority determines the superannuation rights and obligations of members of both the House of Representatives and of the Judiciary who are not members of the Government Superannuation Fund. It has discretionary ability to determine superannuation subsidies, where appropriate, in respect of other statutory officers within its jurisdiction.

Under the Civil List Act 1979, the Authority is charged with determining annuities for former Prime Ministers and their surviving spouses or partners.

Under the Governor General Act 2010 (which came into effect on 23 November 2010) the Authority is charged with determining the salary of the Governor-General, and annuities for former Governors-General.

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In carrying out its duties the Authority is required to balance five statutory criteria which can be paraphrased as:

- Fairness to the individuals whose pay is being set.
- Fair relativity with comparable positions.
- The ability to recruit and retain suitable people.
- Fairness to the taxpayers or ratepayers who ultimately foot the bill.
- The prevailing economic and fiscal situation.

### **Members of the House of Representatives**

The 2010 determination was the first applying to members of the House of Representatives under which the Authority was required to take into account any prevailing adverse economic conditions. It followed the 2009 determination in which no increases in salaries or expense allowances were given.

Modest increases in salary (between 1.9% and 2.9%) were determined to take effect from 1 July 2010. Part of the increase reflected the reduced usage of the travel discount allowances.

The expenses allowances were increased by 3.7% which reflected the increase in Consumer Price Index since the allowances were last adjusted.

The Speaker revised the Speakers Directions with effect from 1 January 2011 which removed the rebate on international air travel for members' spouses and partners, and limited the rebate on international air travel for members to travel on parliamentary business as approved by the Speaker. This reduced the personal value to members of the travel rebates. The Authority originally intended to issue a new determination with effect from 1 January 2011 to reflect and take into account that reduction, and maintain the value of members' remuneration packages. In view of the impact on the New Zealand economy of the Canterbury earthquakes, the Authority decided to defer any adjustments due to the change in international air travel rebates until it considers the determination to take effect from 1 July 2011.

No changes were made to the superannuation subsidies available to members.

### **Statutory Officers**

Remuneration for statutory officers is determined on their appointment and reviewed annually. The review date for the most of these positions is 1 July each year.

As usual the Authority wrote to all statutory officers inviting them to make submissions to the Authority on any matters which they thought the Authority should take into account in its review.

Remuneration for these positions is set by reference to the job size of each position (determined independently), and the pay scale the Authority determines each year for this purpose. The job sizes of the positions are reviewed whenever the scale, scope, or complexity of the position has changed to a degree necessary to warrant a review.

In 2010 the Authority liaised more closely with the State Services Commission in setting its pay scale. This recognises that both the Authority and the Commission set remuneration in the public sector, and it makes sense to align, as far as possible, our respective approaches to remuneration setting. It also helps the Authority avoid the time lag that has existed in the past between the State Services Commission setting the lead on remuneration setting and the Authority recognising that lead and applying it to its “clients”.

The Authority also looks at remuneration levels in the private sector, but at the more senior levels there still remain large gaps between private sector and public sector remuneration for the same sized jobs.

## **Judiciary**

There were no immediate pressing recruitment or retention issues with any of the benches in 2010/11, but the Authority recognises the need to minimise the risk that they will develop over time. Remuneration levels in many areas of the legal profession have increased since the economic downturn, which has particularly impacted on the recruitment pools for appointees to the High Court. Taking these factors into account, as well as the fact that the increases in remuneration for the judiciary in the previous years was less than general wage inflation, modest salary increases were made, ranging from 3.7% for the High Court, to 4.3% for the District Courts, with effect from 1 October 2010.

Coroners’ remuneration was adjusted with effect from 1 January 2011. The sequencing of determinations for coroners and other judicial officers in 2009 resulted in the remuneration for coroners, but not other judicial officers, remaining at 2008 levels until 1 January 2010. Against that background coroners’ salaries were increased by 5.6% to maintain some relativity with other judicial officers.

Discussions with representatives of various benches have indicated the need for a reappraisal of how the Authority goes about setting remuneration for the judiciary. Meetings have been held with representatives and the reappraisal is proceeding. It is expected that the 2011 determinations will be set after this reappraisal.

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No change was made to the levels of general expense allowances, nor to the superannuation subsidy provisions (which have been in force since 2006).

### **Local Authorities**

2010/11 was a busy year!

- The new Auckland council came into being, with consequent boundary changes to some of the former Auckland Regional Authority member councils
- It was an election year for all local authorities
- There had to be a catch up for councils which had elected to have zero increases in the previous year
- The Authority introduced new expense rules for mileage and travel time allowances
- A new methodology was introduced for the determination of Mayoral and Regional Chair salaries
- The methodology for setting council residual pools was modified somewhat
- It was recognised there was a need to review the way the Authority goes about setting remuneration for elected members.

#### *(a) New Auckland Council*

The Authority published in June 2010 a determination for the remuneration for the Auckland Mayor, Auckland Councillors, Local Board Chairs and Local Board Members. This was so that people considering standing for the positions could have some indication of expected remuneration.

The approach taken by the Authority to setting remuneration for elected members of the new Auckland Council was to set base salaries for the Mayor, Councillors, Local Board Chairs and Local Board members. This is different from the “pool” approach taken for all other local authorities.

Following the election results and representations from the Mayor and the Local Boards, additional remuneration was set for Councillors with additional responsibilities, and an establishment allowance was set for other Councillors. Local Board Deputy Chairs’ salaries were set; Local Board members’ salaries remained as originally set.

#### *(b) Local Authority Election Year and catch up*

A determination was issued for the period from 1 July 2010 to 31 October 2010 for Auckland councils, and to the date of the election for all other councils.

A separate determination was issued for all councils (other than the new Auckland Council) setting base salaries to take effect immediately following the elections.

Following the elections, each council made representations concerning the allocation of the pools and the Authority made final determinations. Final determinations were delayed due to slow responses from a number of councils. The delayed determinations caused some problems for some councils.

There was no increase in the pools for the councils which had accepted adjustments to remuneration levels the previous year. For those councils which had requested and received no increase the previous year, a catch up was made to the levels they had previously declined.

A general wage increase factor of 2% was used when establishing the pools for the 2011/12 year.

*(c) New Mileage and Travel Time Allowances*

Following extensive consultation with local authorities, the Authority introduced new Mileage and Travel time Allowance rules. The Authority firmly believes that the new rules are fair and reasonable to all elected members and are consistent with the requirements to be fair to both office holders and the rate payers. However, there has been some considerable resistance to their introduction, perhaps reflecting the fact that in some areas the previous individual council mileage rates and conditions may have been regarded by some as a substitute for enhanced remuneration.

*(d) Mayors and Regional Council Chairs*

A revised approach was adopted for the setting of Mayoral and Regional Council Chairs' salaries for the 2010/2011 year and continued for the 2011/12 year.

The new approach:

- Sets target remuneration for sample councils based on independent job sizing and the Authority's pay scales
- Finds a curve or formula which best replicates those target remunerations, based on statistics available for each council (population, net assets, capital, and expenses)
- Applies that formula or curve to all councils.

The new approach better achieves the criteria that the Authority is required to meet in setting remuneration.

*(e) Local Authority Residual Pools*

The way the Authority calculates residual pools was modified somewhat for the 2011/12 year. This was partly necessitated by the fact that the statistics for the councils which comprised the new Auckland Council had to be removed, and so the algorithm for converting points into pool size needed to be revised. Rather than the total points for all councils being dependent on the total population, a constant total points size was established which removed possible distortions in relativities between councils.

The adjustment to reflect individual council's abnormal population growth or decline was refined.

*(f) Review of Methodology*

Analysis of the remuneration for elected members as it is produced by the current methodology reveals some results which are counter-intuitive. This, coupled with the fact that the existing methodology for setting residual pools has been unchanged for nearly 10 years, has led the Authority to conclude that it should conduct a review of the way in which it sets remuneration for elected members.

Work has started on the review, in consultation with representatives of local government, and is expected to be completed in time for the setting of the 2011/12 determinations.

**Civil List Act 1979**

Under the Civil List Act the Authority determines rates of annuities for former Prime Ministers and their surviving spouses or partners.

These annuities were increased by 4.7% from 1 January 2010.

**Governor-General Act 2010**

This Act came into force on 23 November 2010. It supersedes the provisions in the Civil List Act which provide for the determination of the remuneration for the Governor-General, and rates of annuities for former Governors-General and their surviving spouses or partners. The provisions of the new Act, insofar as they relate to the salary of the Governor-General, only apply to Governors-General who come into office after the commencement of the new Act. Under this Act the salary of the Governor-General is taxable as earned income, whereas under the Civil List Act the salary was exempt from income tax.

In our determination dated 8 June 2011, the Governor-General's salary was increased with effect from 1 April 2010 and 1 April 2011. That determination was under the Civil List Act and so was set on the basis that the salary was exempt from income tax.



Our next determination - to be made under the Governor-General Act - will be in respect of the new Governor-General from the date of taking office, and will be on the basis that the salary is no longer exempt from income tax.

### **Review of the Civil List Act 1979 – Members of Parliament and Ministers**

In November 2010 the Law Commission presented its report “Review of the Civil List Act 1979 – Members of Parliament and Ministers”. This recommended that travel, accommodation, attendance, and communication services for Members of Parliament and members of the Executive should be determined by an enhanced Remuneration Authority. It also recommended that entitlements to funding and services to support parties’ and members’ operations should be determined by an enhanced Remuneration Authority. The Authority was consulted during the preparation of this report.

The report’s recommendations were generally accepted by the Prime Minister but with some modifications to the areas to be covered by the enhanced Remuneration Authority, the Speaker, and Ministerial Services.

The Authority has been involved in the consultation process surrounding the finalisation of the government’s proposals and the drafting of the Members of Parliament Remuneration and Services Bill.

We have also been considering the resources we will need under the new arrangements both during the implementation stage and on an ongoing basis and possible changes in the way that the Authority will go about its business.

Responsibilities of the kind envisaged by the Law Commission would require a higher public profile for the Authority and some changes in the way we operate. We are working to ensure that we would be well placed to respond to that challenge.

### **Appreciation**

The Authority records its appreciation of the work of its Executive Officer, Mrs Patricia Gordon, and contractors, and of the assistance it has received from numerous organisations and individuals. Departmental officers with whom the Authority has dealings have again been helpful and responsive to the Authority’s requests, and in particular, Parliamentary Counsel, Crown Law, and the State Services Commission have provided much appreciated services and assistance to the Authority.

John Errington  
Angela Foulkes  
Diane Morcom

## **Annex**

### **Membership**

Chairman: Mr Michael Wintringham (to 13 August 2010)  
Mr John Errington (from 8 November 2010)

Members: Mr John Errington (to 8 November 2010)  
Ms Angela Foulkes  
Ms Diane Morcom (from 14 February 2011)

### **Staff**

The Authority's Executive Officer is Mrs Patricia Gordon. No other staff are employed but specialist contractors and advisers are engaged as the need arises.

### **Determinations**

The Authority completed and issued 110 determinations during the year. In each case the parties affected by the determination were consulted prior to issuing the determination.