



Report of the

REMUNERATION AUTHORITY

for the year ended
30 June 2015

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

G.17

September 2015

Hon Michael Woodhouse
Minister for Workplace Relations and Safety
Parliament Buildings
WELLINGTON

Dear Minister

I have the honour to submit the Annual Report of the Remuneration Authority for the year ended 30 June 2015 in accordance with section 27 of the Remuneration Authority Act 1977.

Yours sincerely

A handwritten signature in black ink, appearing to read 'John Errington', written over a light grey rectangular background.

John Errington
Chairman

REPORT OF THE REMUNERATION AUTHORITY FOR THE YEAR ENDED 30 JUNE 2015

Introduction

This report covers the 12 months to 30 June 2015.

Jurisdiction

The Authority's jurisdiction covers:

- The salaries, basic expense allowance and office-holder allowance of members of Parliament;
- 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 Parliament 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 Governor General Act 2010 the Authority is charged with determining the salary of the Governor-General, and annuities for former Governors-General and their surviving spouses and partners.

Under the Members of Parliament (Remuneration and Services) Act 2013 the Authority is charged with determining:

- a) Accommodation services within New Zealand for members of Parliament and qualifying electoral candidates, and
- b) Accommodation services within New Zealand for Ministers that are additional to those for members of Parliament, and
- c) Travel services within New Zealand for family members of members of Parliament, Ministers, and qualifying electoral candidates, and
- d) The extent to which the above services may continue to be provided after a member of Parliament vacates his or her seat or, in the case of Ministers, ceases to be a member of the Executive Council, and

- e) Travel services (if any) for future former Prime Ministers and their spouses or partners, and
- f) Annuities for former Prime Ministers and their surviving spouses or partners (previously determined under the Civil List Act 1979).

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.

These criteria were changed in respect to the determination of remuneration for members of Parliament by the passing of the Remuneration Authority (Members of Parliament Remuneration) Amendment Act 2015 on 19 March 2015.

Members of Parliament

Services

Following lengthy and detailed consultation the Authority released its Members of Parliament (Accommodation Services for Members and Travel Services for Family Members and Former Prime Ministers) Determination 2014 on 19 August 2014. The determination provides for:

- a) Accommodation services in Wellington for members and Ministers, and
- b) Accommodation services outside Wellington for members and Ministers, and
- c) Travel services within New Zealand for family members of members of Parliament, and
- d) Travel services for former Prime Ministers and spouses or partners of former Prime Ministers.

Remuneration – February Determination

The Authority finalised its Parliamentary Salaries and Allowances Determination 2015 on 24 February 2015. That complied with the requirements of the Remuneration Authority Act at that time which were to have regard to:

- 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 who ultimately foot the bill;
- The prevailing economic and fiscal situation.

The determination followed our total package approach and also complied with the Members of Parliament (Remuneration and Services) Act 2013 which required us to take into account the value of any element of private benefit contained in any service provided under the Act when determining remuneration for members.

That determination recognised:

- the growth in our pay scale of 3.3% which is largely based on the approach of the State Services Commission (SSC) to remuneration setting in the public service, and
- some catch up on the target total remuneration, caused by us holding back remuneration increases during the Global Financial Crisis, and
- our assessed reduction in the value of private benefits contained in the members' NZ personal travel due to
 - Changed usage, and
 - Inland Revenue's change in assessment of the proportion of cost that is assessable for FBT,
- our assessed reduction in the value of private benefits contained in the family members' NZ personal travel due to
 - Changed usage, and
 - Inland Revenue's change in assessment of the proportion of cost that is assessable for FBT, and
 - Our view that it was appropriate to display a family-friendly approach to members, and
 - Our desire not to penalise members who do not have partners, or whose partners make little use of the benefit.

As a result of all the above an ordinary member's package value increased by 3.56% and their salary increased by 5.5%. The salary increase was higher than the package increase because of the reduction in assessed value of private benefits.

The determination also increased the level of tax-free allowances by 1.6% (equivalent to the change in CPI).

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

Remuneration – May Determination

Following our February determination, the government decided to change the statutory criteria the Authority must follow when setting remuneration for members of Parliament.

Legislation was introduced into the House on 9 March 2015 with the eventual Act being passed on 17 March 2015 with Assent on 19 March 2015. The Bill was passed under urgency without going through the select committee phase. The Authority made representations to the Minister for Workplace Relations and Safety and the Prime Minister after the legislation was introduced, and again whilst it was under consideration by Parliament.

The Remuneration Authority (Members of Parliament Remuneration) Amendment Act 2015 changed both the Remuneration Authority Act 1977 and the Members of Parliament (Remuneration and Services) Act 2013. The Amendment Act revoked the salary part of the Parliamentary Salaries and Allowances Determination 2015 and required the Authority to make a new determination in relation to salaries from 1 July 2014.

Under the revised Members of Parliament (Remuneration and Services) Act 2013 the Authority is required to take into account only the value of any change in personal benefit or potential personal benefit that has arisen because of a change in entitlements compared with entitlements included in the previous determination or direction (made under the Act).

Under the revised Remuneration Authority Act 1977 members of Parliament's salaries are determined solely according to changes in the average ordinary time weekly earnings for FTE employees in the public sector as determined by the Quarterly Employment Survey (QES) and any change in the personal benefit or potential personal benefit that the Authority is required to take into account under section 16(2)(b) of the Members of Parliament (Remuneration and Services) Act 2013.

It can be noted that for the Authority to take into account values of changes in personal benefit then the following conditions must apply:

1. There must have been a change in entitlement under a determination issued under the Members of Parliament (Remuneration and Services) Act 2013, and
2. That change in entitlement must have resulted in a change in personal benefit or potential personal benefit.

Changes in personal benefit due to changes in usage or changes in the Inland Revenue's assessment of FBT will not trigger any salary change.

The Authority, after taking legal advice on how to interpret the new rules, issued the Parliamentary Salaries Determination on 26 May 2015. That determination increased member's salaries from 1 July 2014 by 1.52% (the change in QES). There was no adjustment for changes in values of entitlements because there was no change in members of Parliament's entitlements to services in the period between the 2013/14 salary determination and 1 July 2014.

Changes to entitlements made in September 2014 will be taken into account when setting salaries for 1 July 2015.

Statutory Officers

Remuneration

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.

During the year the Authority continued to liaise 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.

The pay scale established by the Authority for the 2014/15 year exhibited increases between 1.9% and 4.0% over the previous year.

Employment Status of Statutory Officers

On many occasions it has come to the attention of the Authority that there is confusion about the employment status of statutory officers and consequent uncertainty regarding such things as holiday entitlements, personal taxation arrangements, superannuation entitlements, and other entitlements normally associated with employment such as parental leave and sick leave.

The Authority has taken legal advice on these matters, has liaised with the State Services Commission, and has put together a guidance paper setting out our understanding of the issues. We have sent the paper to all individuals for whom we set remuneration and to those agencies associated with the appointment of those statutory officers.

Judiciary

The remuneration setting process for the judiciary provides for focussed information gathering on remuneration in the “recruitment pools” or “peer groups” of the relevant benches.

There were no immediate pressing recruitment or retention issues with any of the benches in 2014/15, but the Authority recognises the need to minimise the risk that they may develop over time. Taking into account available information on remuneration for “peer groups” as well as general wage inflation and increase in Consumer Price Index, the

Authority made increases of between 3.5% and 4.0% for judicial officers with effect from 1 October 2014. The differences in rates of increase reflect the different movements in the pools from which different groups of judges are recruited.

Coroners' remuneration was adjusted with effect from 1 January 2015 broadly in line with the increase for a District Court judge.

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

Work is approaching completion on the review of the general expense allowance included in the judicial determination.

Local Authorities

The Authority completed its review of the way it sets elected members' remuneration with the new remuneration setting process coming into effect immediately following the October 2013 local body elections.

The 2015/16 remuneration setting for mayors and councillors followed on from the new remuneration setting process by:

- Re-assessing each council's size index by reference to updated population statistics and 2013/14 individual council's expenses, and
- Applying the relationships established in 2013 between size indices and remuneration together with an allowance for general levels of wage growth between 2013 and 2015, and
- Applying similar techniques as used in 2013 to dampen down large decreases or increases, and
- Ensuring that no base councillor salaries or mayoral remuneration were reduced as a result of the above process.

This revised process considerably reduces the complexity of remuneration setting in non-election years and enabled the Authority to set up computational techniques to further simplify the process in future years.

The Local Government Elected Members Determination was finalised in time for publication shortly after the start of local governments' new financial year.

The way in which remuneration is determined for elected members of the Auckland Council and Local Boards from the 2013 elections broadly follows the process now used for the rest of the country. The Auckland Council determination was published on 22 July 2015.

Annuities for Former Prime Ministers

The Authority's responsibility for determining annuities for former Prime Ministers and their surviving spouses or partners was transferred to the Members of Parliament (Remuneration and Services) Act 2013 with effect from 16 December 2013.

These annuities were increased by 1.5% from 1 January 2015.

Governor-General Act 2010

Under the Governor General Act 2010 the Authority determines the remuneration of the Governor General and determines rates of annuities for former Governors General and their surviving spouses or partners.

We have made two determinations under the Act.

The first increased the salary for the Governor-General by 3.6% from 1 November 2014. This salary is fully taxable as earned income.

The second increased the annuities payable to former Governors-General (or surviving spouses or partners) by 2.8% from 1 April 2015.

Appreciation

The Authority records its appreciation of the work of its Executive Officer, Mrs Patricia Gordon, who retired in December 2014 after over 20 years' service to the Authority.

We also record our appreciation of the work done by contractors, and of the assistance we have 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. In particular, Parliamentary Counsel, Crown Law, the State Services Commission, the Parliamentary Service, and Ministerial Services have provided much appreciated services and assistance to the Authority.

The Authority has been well supported by the Ministry of Business, Innovation and Employment, including the secondment of a senior adviser.

John Errington
Angela Foulkes
Diane Morcom

Annex

Membership

Chairman: Mr John Errington

Members: Ms Angela Foulkes
Ms Diane Morcom

Staff

The Authority is supported by a Senior Adviser and an Executive Officer. Specialist contractors and advisers are engaged as the need arises.

Determinations

The Authority completed and issued 128 determinations during the year. In each case the parties affected by the determination were consulted prior to issuing the determination.