



Report of the

REMUNERATION AUTHORITY

for the year ended
30 June 2016

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

September 2016

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 2016 in accordance with section 27 of the Remuneration Authority Act 1977.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Fran Wilde". The signature is fluid and cursive, with a long, sweeping underline that extends to the left.

Hon. Fran Wilde
Chairperson

REPORT OF THE REMUNERATION AUTHORITY FOR THE YEAR ENDED 30 JUNE 2016

Introduction

This report covers the 12 months to 30 June 2016.

Jurisdiction

The Authority's jurisdiction covers:

- The salaries, basic expense allowance and office-holder allowances of Members of Parliament (MPs);
- 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.

Members of Parliament

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

- a) Accommodation services within New Zealand for MPs and qualifying electoral candidates, and
- b) Accommodation services within New Zealand for Ministers that are additional to those for MPs, and
- c) Travel services within New Zealand for family members of MPs, Ministers, and qualifying electoral candidates, and
- d) The extent to which the above services may continue to be provided after an MP 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;
- 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.

Services

There were no changes to the Services Determination during the year under review. The Authority has monitored the implementation of the first Members of Parliament (Accommodation Services for Members and Travel Services for Family Members and Former Prime Ministers) Determination and has begun the process of considering the issues to be the subject of consultation during 2016/2017 with a view to an amending determination in July 2017.

Remuneration

The Authority finalised its Parliamentary Salaries and Allowances Determination 2016 in December.

This was the first annual review of remuneration for MPs under the revised Remuneration Authority Act 1977. Under the Members of Parliament (Remuneration and Services) Act 2013, salaries for MPs 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) and the Authority is required to take into account any change in the personal benefit or potential personal benefit.

For the Authority to take into account values of changes in personal benefit, the following conditions must apply:

- a) There must have been a change in entitlement under a determination issued under the Members of Parliament (Remuneration and Services) Act 2013, and
- b) 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 fringe benefit tax do not trigger any salary change.

The change to the ordinary time weekly earnings by FTE employees in the public sector between 2014 and 2015 was 2.62%. In September 2014 the Authority had issued its first Services Determination which changed a number of services available to MPs. Only one of the changes made (the provision of travel services to spouses' and partners' New Zealand travel) was considered to have changed the amount of personal benefit available to MPs.

In line with the 2015 revision to the Remuneration Act 1977, this was assessed as reducing the personal benefit available to an MP by \$2590, so each salary rate was increased by that amount. The effect of this adjustment increased the percentage movement effecting MPs resulting in increases ranging between 3.12% and 4.06%.

An adjustment was also made to the MPs' tax-free out-of-pocket allowance which was increased by the annual movement in the consumer price index of 0.4%.

Statutory Officers

Remuneration

Remuneration for statutory officers is determined on their appointment and reviewed annually. The review date for 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 should be taken into account in the 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 and the Authority recognising that lead and applying it.

We note that at the more senior levels there still remain large gaps between private sector and public sector remuneration for the same sized jobs.

At the time of establishing the pay scale for 2015/2016 (May to August 2015) the volatility in commodity prices, particularly in the dairy sector, was causing some stress on economic projections. In line with the requirement in the Remuneration Act 1977 to take into consideration adverse economic circumstances, the Authority held its payline increase to less than 2%, slightly below the wage movements in the public sector.

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 2015/16, but the Authority recognises the need to minimise the risk that such issues may develop over time. Taking into account available information on remuneration for “peer groups”, as well as general wage inflation and increase in the Consumer Price Index, the Authority applied increases of approximately 2% to judges with effect from 1 October 2015.

Coroners’ remuneration was adjusted with effect from 1 January 2016, broadly in line with the increase for a District Court judge.

After a review undertaken during the year it was determined that no change was required to the levels of general expense allowances, nor to the superannuation subsidy provisions (which have been in force since 2006).

Local Authorities

The Authority issued two replacement determinations for local government during the year, the first for Auckland and the second covering the balance of district and regional councils.

Both followed a review exercise that considered the skills, accountabilities and time commitments of local government elected members.

Under the system used by the Authority for local government elected members, the Authority sets a base councillor rate for each council, and councils can make submissions on the additional remuneration for those councillors undertaking additional duties. Under the system, a relationship between the size of a council (measured using a size index) and mayor, chairperson, and base councillor salaries is determined every 3 years in election year. A similar approach is used to set the remuneration of community board members, where the remuneration of each community board is related to its population.

The Authority undertook a review of the remuneration framework for local government during 2015, including job sizing the positions of a representative group of councils and assessing workloads. The Authority found clear evidence regarding the size of positions but has less confidence in the evidence relating to workload.

Given that uncertainty, the Authority has not proceeded to fully or partially implement increases that would in many cases have been well in excess of 10%. It has instead applied increases to the base remuneration payable to councillors ranging from 1.5% to

3% depending on the size of the council. At the higher level these reflect the movements in public sector remuneration more generally.

The Authority also adjusted upwards the amount of money available for councils to spend to recognise members undertaking additional duties. These modest increases reflect the Authority's concern that the local government sector continues to be under considerable pressure to restrain expenditure and rate movements.

However, the Authority is also concerned that the expectations placed on local representatives continue to increase and remuneration does not in all circumstances reflect the skill and effort required from members. It will therefore begin further work this year to establish an ongoing basis for remuneration that treats both the ratepayer and the elected member fairly.

Minor amendments are also made to some allowances to reflect submissions made to the Authority.

The Authority issued a separate determination for Canterbury Regional Council. The Environment Canterbury (Transitional Governance Arrangements) Act 2016 required the Remuneration Authority to issue a determination establishing the remuneration applicable to the chairperson and other members of the Canterbury Regional Council who will be elected and appointed to take up their duties from 9 October 2016.

The remuneration has been established on the same basis as the remuneration payable to all other regional councils and applies similarly to elected and appointed members. We expect to incorporate Canterbury Regional Council into the main determination in future years.

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 approximately 3%, effective on 1 January 2016.

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 1.75% from 1 November 2015. This salary is fully taxable as earned income.

The second increased the annuities payable to former Governors-General (or surviving spouses or partners) by approximately 2% from 1 April 2016.

Appreciation

The Authority has been supported by the Ministry of Business, Innovation and Employment (MBIE), and Members of the Authority have particularly valued the work of the senior advisor who was seconded to the Authority from MBIE.

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.

During the year there was a change in membership of the Authority, with Chair John Errington and Member Diane Morcom leaving. Mr Errington and Ms Morcom have been committed and extremely diligent Members of the Authority for 6 and 5 years respectively, and the Authority owes them significant thanks for their contributions.

Hon. Fran Wilde
Angela Foulkes
Geoff Summers

Annex

Membership

Chairman: Hon. Fran Wilde

Members: Ms Angela Foulkes
Mr Geoff Summers

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.