



Report of the

REMUNERATION AUTHORITY

for the year ended 30 June 2019

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



17 September 2019

Hon Iain Lees-Galloway
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 2019, in accordance with section 27 of the Remuneration Authority Act 1977.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Fran Wilde'.

Hon Dame Fran Wilde DNZM QSO
Chairperson

REPORT OF THE REMUNERATION AUTHORITY FOR THE YEAR ENDED 30 JUNE 2019

Introduction

This report covers the 12 months to 30 June 2019.

During the past year, the Remuneration Authority has continued major reviews of its approaches to determining the remuneration of judicial officers and local government elected members. The refreshing and updating of the Authority's internal policies and procedures has also continued.

During the year ended 30 June 2019, the Authority issued 118 determinations covering more than 2000 individuals.

Jurisdiction

The Remuneration Authority is established under the Remuneration Act 1977. It is an independent statutory body which determines the remuneration (sometimes including superannuation rights, expenses and allowances) for a variety of senior public office holders and in some cases, their partners or families. These office holders include the Governor-General, Members of Parliament, the Judiciary, elected members of local authorities and a range of statutory officers.

In carrying out its duties the Authority is required to balance a number of statutory criteria which can be summarised as:

- fairness to the person(s) 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 requirements of the position(s) concerned;
- the conditions of service enjoyed by the person(s) whose remuneration is being determined;
- taking account of the countervailing economic conditions.

The above criteria did not apply to Members of Parliament, whose remuneration had been fixed between the 2015/16 and 2018/19 financial years by a specific legislated

formula over which the Authority had no influence or discretion.

In all case where the relevant parties were affected by a determination they were consulted on the determination before it was issued.

Governor-General and Former Governors-General

Under the Governor-General Act 2010, the Authority is charged with determining the salary of the Governor-General and the annuities for former Governors-General and their surviving spouses and partners.

During the year the Authority increased the salary of the Governor-General by 1.4% from 1 November 2018. This salary is fully taxable as earned income. Annuities payable to former Governors-General (or surviving spouses or partners) were increased by 1.9% from 1 April 2019.

Members of Parliament

Salaries and Allowances

Under section 12 of the Remuneration Authority Act 1977 and Section 8 of the Members of Parliament (Remuneration and Services) Act 2013, the Remuneration Authority is required to determine the salaries and allowances paid to Members of Parliament (MPs).

Between 1 July 2015 and 30 June 2018, the salaries of MPs were fixed according to a prescribed formula set out in section 18B of the Remuneration Authority Act, which was inserted into the Act on 20 March 2015. MPs' salaries were adjusted by a percentage calculated in accordance with the formula. The formula did not permit the Authority to apply discretion to address particular and special circumstances.

On 20 August 2018 the Prime Minister, Rt Hon Jacinda Ardern, announced that Cabinet had agreed to freeze MPs' pay until 30 June 2019. This period would allow time for the Government to review the formula to ensure that it was fair and in keeping with the Government's expectations and values. Urgent legislation was subsequently enacted to suspend the Authority's ability to determine MPs' salaries, allowances and superannuation entitlements during the period 1 July 2018 to 30 June 2019.

The legislation preserved for the 2018/19 year MPs salaries and allowances at the amounts specified in Parliamentary Salaries and Allowances Determination 2017. Therefore, no adjustments have been made to MPs' salaries, allowances or superannuation entitlements were made during the twelve months under review.

Accommodation and Travel Services

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

- a) accommodation services within New Zealand for MPs and qualifying electoral candidates;

- b) accommodation services within New Zealand for Ministers, additional to those for MPs;
- c) travel services within New Zealand for family members of MPs, Ministers, and qualifying electoral candidates; and the
- d) the extent to which the above services may continue to be provided after an MP vacates her or his seat or, in the case of a Minister, ceases to be a Member of the Executive Council.

The Authority issued its first accommodation and travel services determination under the above Act in 2014. Section 32(1) of the Act requires that once in each term of Parliament the Authority should make a determination on accommodation services for members and Ministers, and travel services for their families. As 2017 was a general election year, the Authority completed a substantial review of the determination and in September 2017 issued a new determination - the Members of Parliament (Accommodation Services for Members and Travel Services for Family Members) Determination 2017. It applied from the day after election and endures through to the end of the parliamentary term.

Should the need arise; amendments to address specific issues may be issued during the period of the determination. During the year under review, no amendments were made but the Authority continues to monitor the various services that are available to MPs and their family members under the Determination to ensure whether they remain fit for purpose.

Former Prime Ministers

The Members of Parliament (Remuneration and Services) Act 2013 requires the Authority to determine the annuity of former Prime Ministers and their surviving spouses or partners. This annuity was increased by approximately 1.5%, effective from 1 January 2019.

The Authority also has the responsibility under the above Act to determine the entitlements to travel services within New Zealand for former Prime Ministers and their spouses or partners. The determination applies only to former Prime Ministers who ceased to hold office on or after 21 September 2014. No changes were made to their travel services entitlements during the last year.

Judiciary

During the last 18 months, the Authority has completed a significant review of its approach to setting remuneration, allowances, and superannuation entitlements for judicial officers specified under section 12B of the Remuneration Authority Act 1977.

The review took into account a wide range of information, including:

- submissions (written and oral) received from the various benches;
- the views of key stakeholders;

- remuneration data on comparable jobs in private sector legal practices with similar skills and experience and for groups from which it can be expected that the judicial officers could be recruited;
- remuneration data for senior positions in the public sector;
- remuneration arrangements covering judicial officers in international jurisdictions;
- the terms and conditions of employment of members of the judiciary;
- information on the recruitment and retention of judicial officers and relevant demographic data;
- a survey of recurring and contemporary issues affecting the courts.

A key finding of the review was the importance of maintaining appropriate relativities between the salaries of the various judicial officer positions. While such relativities should not be regarded as fixed in perpetuity, the Authority recognised the risk in the significance that some might attribute to any change in relativities that have been stable for some time. Some positions such as the Chief High Court Judge, Associate Judges of the High Court, Principal Youth Court Judge and Principal Environment Judge received a higher increase in 2018 to address historic relativity issues. Rather than percentage increases, the judges of the Supreme Court and the Court of Appeal received a flat rate increase based on the increase to the salary of a judge of the High Court.

For those judges covered by the Judicial Salaries and Allowances (2018/19) Determination 2018, the principal allowance for general expenses (see section 12B(1) of the Remuneration Authority Act 1977) has, from 1 October 2018, been incorporated into their salaries, as the Authority determined that this allowance was no longer relevant in this modern world.

For the District Court and specialist courts, the superannuation subsidy in associated determinations was changed to bring it into line with the subsidy enjoyed by the Senior Courts, but salary increases were small.

The National Duty Coroner Allowance and additional payment for a relief coroner were adjusted in line with the increases to the salary of a coroner.

Across all the benches there was an average increase in salaries of approximately 1.06% for the 2018/19 year.

Local Government Elected Members

The Remuneration Authority determines the remuneration of local authority elected members, pursuant to clauses 6 and 7 of Schedule 7 of the Local Government Act 2002.

During the year we issued one principal and two amending determinations for local

authorities. The amending determinations were generally made at the request of the individual councils who had made changes to their positions of additional responsibilities during the 2018/19 year.

The Local Government Members (2018/19) (Local Authorities) Determination 2018 that took effect from 1 July 2018 introduced the Authority's new approach to determining the remuneration and allowances of local government elected members. This will be fully implemented following the 2019 local elections. The new approach is based on an extensive review of the system used to assist the determination of elected members pay. A detailed paper setting out the new approach, the reasons for them, and the timing of the implementation is available on the Authority's website www.remauthority.govt.nz .

The new system continues to be based on council size indices which include sizing factors relevant to the responsibilities of territorial, unitary, and regional authorities. These indices are intended only for the purposes of the Remuneration Authority. The Authority has also created a local government pay scale using parliamentary remuneration as a comparator. Because of their extreme sizes, Auckland and Chatham Islands councils will sit outside the pay scale, which is anchored at the top by Christchurch City Council (the largest council aside from Auckland) and at the bottom related to a pro rata proportion of the average wage. The largest role in local government (the Mayor of Auckland) will receive no more than a cabinet minister. The revised and updated indices and the new pay scale have together resulted in different changes in remuneration of elected members between different councils.

The beginning of these changes was delivered in the 2018/19 determination, with varying levels of remuneration increases between councils, as we began the adjustment. The changes will continue to be implemented in two further steps (tranches 2 & 3) which are included the 2019/20 elected members determination. Tranche 2 is effective from 1 July 2019, followed by tranche 3 which comes into effect after the 2019 elections.

At that stage all councils will also move to a "pool" approach. Under this approach, the Remuneration Authority will notify each council of a sum of money available for councilor remuneration, including a bare minimum councilor annual rate, then ask councils to submit proposals for their actual minimum rate plus the remuneration attached to positions of responsibility within their council.

Neither the remuneration pool nor the size index are applicable to community boards or Auckland local boards. Further work was completed during the past year on these two groups. In the 2018/19 determination, the elected members of community boards and Auckland local boards received an increase of 1.5% that reflected the change in the Statistics New Zealand Labour Market Statistics (wage inflation) for the public sector in the year to March 2018.

The review did identify the extra workload attached to the deputy chair positions on the various Auckland local boards and the Authority consequently increased their remuneration to 60% of the rate for their respective community board chair.

All allowances for elected local government members were reviewed for the 2018/19 year. To reduce the transaction costs associated with a council who chooses to provide a motor vehicle to their mayor or regional council chair, from 1 July 2018 councils are now required to deduct from the mayor or regional chair's annual remuneration (as shown in the determination) the annual value of the motor vehicle, calculated using a formula specified in the determination.

Upper limits were set by the Authority on the purchase prices of petrol/diesel and electric/hybrid motor vehicles (including on-road costs and goods and services tax paid). These upper limits take account of the vehicle being fit for purpose, the safety of the driver and fairness to the ratepayer. The primary reason the Authority has set a differential between the maximum purchase prices of a petrol or diesel vehicle and an electric or hybrid vehicle is that data from Inland Revenue and AA Motoring show that electric and hybrid vehicles have lower running costs, but higher fixed costs, when compared to petrol or diesel vehicles. The fixed costs of an electric or hybrid vehicle sit between those of a medium and large vehicle. The new purchase prices apply to all new or replacement motor vehicles from 1 July 2018.

The Authority expects that if a mayor or regional chair is provided with a motor vehicle, the local authority will publish in its annual financial statements the vehicle details, including its annual value as a component of the mayor's or regional chairperson's total remuneration.

Changes were made to the travel time allowance to take into account that, with the exception of the Mayor of the Chatham Islands, all other mayors and regional council chairs are deemed by the Authority to be full-time roles. Therefore, those roles are no longer eligible to receive the travel time allowance.

To be fair to ratepayers, if a member lives outside of the member's local authority area and travels on local authority business to and from the member's place of residence and the local authority area, the member can claim the travel time allowance only when travelling within the boundary of their local authority area.

The travel time allowance has also been adjusted to place a cap on the amount of travel time that can be claimed within a 24-hour period. The maximum payable is capped at 8 hours, based on a member who travels for 9 hours during a 24-hour period (as the first hour of travel cannot be claimed).

Statutory Officers

Statutory officers who fall under the Authority's responsibility include certain chief executives and other officers of public service and non-public service departments, officers of Parliament, members of all independent Crown entities, members of those Crown agents or autonomous Crown entities that are corporations sole, and the heads and members of certain tribunals.

For statutory officers, their remuneration is determined on appointment and reviewed annually. The review date for most of these positions is 1 July each year, while a small number of positions are reviewed on 1 October each year.

Remuneration for statutory officer positions is set by reference to the job size of each position (determined independently), relativity to similar positions within the broader public sector, as well as information from Statistics New Zealand, the State Services Commission and private sector remuneration survey consultancies. The job sizes of positions are reviewed whenever the scale, scope or complexity of the position has changed to a degree necessary to warrant a review or, in most cases, at least every 4 to 5 years.

Performance is not taken into account when determining a statutory officers' remuneration, as the Authority has no mandate to do so under the Remuneration Authority Act 1977.

Remuneration increases for statutory positions in the 2018/19 year ranged from 0.0% to 6.3%, depending on whether the current remuneration was in line with the job size and market. Overall the average increase was around 1.3%.

Internal Management

The Authority's new operating model, which was implemented during the second half of the 2016/17 year, has proved to be a success. It has ensured that the Authority has available at all times a high level of technical as well as public management expertise. It has substantially reduced our reliance on external contractors, although we will still need to draw on their services from time to time for highly specialist and specific advice.

Upgrading all our processes and systems continues, in particular developing electronic tools to replace manual processes. This is ensuring that we have data available at our finger tips and that analysis can be completed in real time. These new systems have increased exponentially our evidence base.

We are updating our policies and we have made a commitment to having as much of our policy as possible publicly available on our website, while still maintaining required confidentiality regarding individual clients and our discussions with them or their representatives.

Appreciation

The Authority records its appreciation of the work done by contractors and of the assistance we have received from a number of organisations and individuals. We would like to thank them as well as other departmental officers who have been helpful, in particular Parliamentary Counsel Office, Crown Law, the Parliamentary Service, Ministerial Services, the Inland Revenue Department, Statistics NZ and the State Services Commission. Thanks also to representatives of Local Government NZ and others from the local government sector for their continuing input into our review of Local Authority elected members remuneration setting. We also thank the Ministry of Business, Innovation and Employment which provides the Authority with corporate and support services.

Lastly the Authority members want to recognise the significant input of the Director of the Office of the Remuneration Authority and of the Analyst who provides support.

Hon Dame Fran Wilde

Geoff Summers

Len Cook

Annex

Membership of Authority

- The Hon. Dame Fran Wilde DNZM QSO (Chair)
- Mr Geoff Summers (Deputy Chair)
- Mr Len Cook CBE

Staff

The Authority is supported by a Director of the Office of the Remuneration Authority and an Analyst/Administrator. Specialist contractors and advisers are engaged as the need arises.

Determinations

The Authority issued and/or oversaw the following determinations during the 2018/19 year:

- Governor-General (Salary) Determination 2018
- Governor-General (Annuities) Determination 2019
- Parliamentary Salaries and Allowances Determination 2017
- Parliamentary Superannuation Determination 2003
- Members of Parliament (Accommodation Services for Members and Travel Services for Family Members) Determination 2017
- Parliamentary Annuities Determination 2019
- Members of Parliament (Former Prime Ministers Travel Services) Determination 2017
- Judicial Salaries and Allowances (2018/19) Determination 2018
- Judicial Superannuation Determination 2019
- Judicial Salaries, Allowances, and Superannuation (Court Martial Appeal Court and Court Martial) Determination 2019
- Coroners (Salaries and Superannuation) Determination 2019
- Local Government Members (2018/19) (Local Authorities) Determination 2018

- Local Government Members (2018/19) (Local Authorities) Amendment Determination 2018
- Local Government Members (2018/19) (Local Authorities) Amendment Determination 2019
- Individual independent statutory officers and members of boards – 105 separate determinations

Website

www.remauthority.govt.nz