



Report of the

REMUNERATION AUTHORITY

for the year ended
30 June 2014

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

September 2014

Hon Simon Bridges
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 2014 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 2014

Introduction

This report covers the 12 months to 30 June 2014.

The direct effects of the global financial crisis have diminished to the extent that they have had little effect on the Authority's remuneration determinations in the last year, although the Authority continues to reflect the restraint being experienced in the wider public sector.

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 was charged with determining annuities for former Prime Ministers and their surviving spouses or partners.

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.

The Members of Parliament (Remuneration and Services) Act 2013 received assent on 18 November 2013 and largely came into force on 16 December 2013. The passing of the Act came after a long period of gestation since the Bill was first introduced on 5 October 2011. The Act places new responsibilities on the Authority to determine:

- 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 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.

The Authority's first determination under the Act, covering the above new responsibilities, was required to be made by 1 September 2014 to come into force on the day after the general election.

The Authority's responsibility for determining annuities for former Prime Ministers and their surviving spouses or partners was transferred to the new Act from 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.

Members of the House of Representatives

The Members of Parliament (Remuneration and Services) Act 2013 formally requires the assessment of the value of any personal benefit resulting from any entitlement under determinations by the Authority, the Speaker, or the Minister Responsible for Ministerial Services under the Act. The Act requires the Authority to take the assessed value of personal benefit into account when determining the salaries and allowances of the relevant members of Parliament or Ministers. This is done by, effectively, reducing the remuneration of members by the average assessed values of any personal benefits. Thus, the personal benefit cost of entitlements is being met by the members themselves.

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The Authority applied a general increase to salaries from 1 July 2013 of 2.2%, which took into account general remuneration growth. Taking into account the reduction in the assessed value of the travel entitlement, packages increased by about 1.96%.

The expenses allowances were increased by 0.7% which reflected the increase in Consumer Price Index since the allowances were last adjusted.

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

Based on current movements in remuneration for top level executive positions, it appears that the gap between market remuneration and the remuneration of senior members of the Executive of Parliament is now greater than in the past. The Authority will be reviewing this increasing gap during the coming year.

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.

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 2013/14 year exhibited increases between 2.0% and 3.6% over the previous year.

Judiciary

The remuneration setting process for the judiciary provides for more 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 2013/14, but the Authority recognises the need to minimise the risk that they will 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 an increase of about 3.3% for judicial officers with effect from 1 October 2013.

Coroners’ remuneration was adjusted with effect from 1 January 2014 by an amount similar to that 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 has started, in conjunction with representatives for various benches and the Inland Revenue, on a 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 2014/15 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 2012/13 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 2014, 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.

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This revised process considerably reduced 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 government's 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 30 April 2014.

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 2.2% from 1 January 2014.

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 3.5% from 1 November 2013. This salary is fully taxable as earned income.

The second increased the annuities payable to former Governors-General (or surviving spouses or partners) by 2.9% from 1 April 2014.

Members of Parliament (Remuneration and Services) Act 2013

In November 2010 the Law Commission presented its report "Review of the Civil List Act 1979 – Members of Parliament and Ministers".

The report's recommendations were generally accepted by the Prime Minister.

The Members of Parliament (Remuneration and Services) Bill was introduced on 5 October 2011 and had its first reading on 28 March 2012. The bill was reported back to Parliament on 20 June and was passed into law on 18 November 2013.

One of the first things the Authority did after the new Act came into force was finalise a Resolution of Issues Procedure as required under the Act. The Procedure was promulgated to Parliamentary Service and Ministerial Services on 16 December 2013.

Since then the Authority has worked on developing its views on:

- New Zealand accommodation services for members of parliament, and
- New Zealand travel services for family members of members of parliament, and
- New Zealand travel services for former Prime Ministers and their spouses or partners.

We have gone about this work by:

- Establishing some key principles to follow, and
- Reviewing accommodation and family travel provisions in other jurisdictions with parliamentary systems and traditions similar to our own, and
- Understanding the key drivers behind the establishment of current provisions, and
- Engaging extensively with members of Parliament and the officials responsible for administering the arrangements, and
- Promulgating our initial and tentative thoughts with interested parties and gaining their feedback.

At the time of writing we have just published our first determination under the Act.

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, State Services Commission, 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 advisor.

John Errington
Angela Foulkes
Diane Morcom

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Annex

Membership

Chairman: Mr John Errington

Members: Ms Angela Foulkes
Ms Diane Morcom

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 130 determinations during the year. In each case the parties affected by the determination were consulted prior to issuing the determination.