



Report of the

REMUNERATION AUTHORITY

for the year ended
30 June 2012

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

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October 2012

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 2012 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 2012

Overview

This report covers the 12 months to 30 June 2012.

The continuing effects of the global financial crisis have had some effect on the Authority's remuneration determinations.

The Authority is continuing its review of how it goes about setting remuneration for elected members of local authorities.

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

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 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 considered the annual determination which took effect from 1 July 2011.

As the salary of every member is adjusted to take account of the personal benefit of the travel discount entitlements available to all members, the members themselves are meeting the cost of those personal benefits by, in effect, taking a salary cut to pay for the benefits. The cost is also being met by members with additional responsibilities by virtue of the process the Authority uses to set the salaries for those members. It therefore follows that, if the value of the personal benefit of those entitlements significantly decreases, there should be a compensating adjustment to salaries.

Since fiscal year 2009 general salaries and wages have increased by 3.5% and the Consumers Price Index had increased by 7.0%. Parliamentary salaries (excluding the \$2,000 increase in 2010 to compensate for the reduction in value of the travel discount entitlements) had increased by only 1.4%.

Taking into account the prevailing adverse economic conditions, the Authority applied a general increase from 1 July 2011 of 1.5%, in addition to a \$5,000 increase to compensate for the reduction in value of the travel discount entitlement. This resulted in increases in salary between 2.7% and 5.2% for members.

The expenses allowances were increased by 3.7% 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.

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 2012 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.

Judiciary

The Authority completed its reappraisal of how it goes about setting remuneration for the judiciary prior to setting the 2011 determinations. The reappraisal process included looking at the remuneration setting in some other countries as well as consulting with various members of the judiciary. The resulting remuneration setting process now 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 2011/12, 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

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groups” as well as general wage inflation and increase in Consumer Price Index, the Authority made an increase of about 1.5% for judicial officers with effect from 1 October 2011.

Coroners’ remuneration was adjusted with effect from 1 January 2012 by a similar 1.5% increase.

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

Work continued during the year on the Authority’s review of the way it sets elected members’ remuneration. It was originally intended to implement the results of the review from 1 July 2012 but this has been delayed until 2013 to coincide with the next local authority elections. This is so that more time can be spent on consultation with councils to ensure a robust outcome, and also to bring about any changes in remuneration after the elections so that candidates will have a good idea of the remuneration prior to putting their names forward for election.

In the meantime the processes used in the previous year were continued for the 2012/13 year.

In general, remuneration for Mayors and Chairs, and pools for councillor remuneration, increased by about 1.5%, before taking into account the changes in population/expenses/assets mix for each council.

Consultation also continued with the Auckland Council and Local Boards. These bodies are still in the establishment stage and so no major changes were made to the way which remuneration is set.

A general 1.5% increase was set for the Auckland Council and a similar level of increase for Auckland Local Boards (before taking into account changes in population).

Some minor changes to the wordings of the mileage and travel time allowances clauses in the determination were made to clarify their intention.

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 2.0% from 1 January 2011.

Governor-General Act 2010

This Act came into force on 23 November 2010. It superseded the provisions in the Civil List Act which provided 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.

We have made two determinations under the new Act.

The first, dated 26 July 2011, set the salary for the new Governor-General at \$311,000 from the date of his appointment. This salary is fully taxable as earned income.

The second, dated 19 June 2012, increased the annuities payable to former Governors-General (or surviving spouses or partners) by 2.0% from 1 April 2012.

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 was 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.

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The Members of Parliament (Remuneration and Services) Bill was introduced on 5 October 2011 and had its first reading on 28 March 2012. It is currently under consideration by the Government Administration Committee and we understand it is due for reporting back early in the New Year.

We are continuing to plan for the additional work we will need to do to meet our obligations when the Bill is passed, as well as considering possible changes to the way that the Authority will go about its business.

Responsibilities of the kind envisaged by the Bill will require a higher public profile for the Authority and some changes in the way we operate. We are working to ensure that we will be well placed to respond to that challenge, including setting up a website.

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. Thanks also to representatives of Local Government NZ for continuing input into our review of Local Authority remuneration setting.

John Errington
Angela Foulkes
Diane Morcom

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