



## CABINET FEES FRAMEWORK REQUEST – Government Superannuation Fund Authority, National Provident Fund and Toka Tū Ake Earthquake Commission

<b>Date:</b>	<b>16 August 2023</b>		
<b>To:</b>	<b>Hon Andrew Little, Minister for the Public Service</b>		
<b>Action Sought:</b>	<b>Sign and send</b> the attached letters to the Minister of Finance and Minister Responsible for the Earthquake Commission.	<b>Due Date</b>	18 August 2023
<b>Report No:</b>	2023-0235		
<b>Contact:</b>	<b>Robert Anderson, Director, System and Agency Performance, Ph:</b> 9(2)(a) privacy		
<b>Encl:</b>	Yes	<b>Priority:</b>	High
<b>Security Level:</b>	<b>IN CONFIDENCE</b>		

### Executive Summary

1. The Minister of Finance and Minister Responsible for the Earthquake Commission are each seeking your support for fee exceptions for boards for which they are responsible.

#### *Government Superannuation Fund Authority (GSFA) and National Provident Fund (NPF)*

2. The Minister of Finance proposes a 9.7 percent increase to Board members' fees for the Government Superannuation Fund Authority (GSFA) and National Provident Fund (NPF). In both cases, this equates to an increase from \$30,800 to \$33,800 for board members (and from \$61,600 to \$67,600 for the Chairs). It is proposed that fees are backdated with effect from 1 July 2023.
3. The rationale for the exceptions is to better reflect the increasing complexity, scale and challenge of governing GSFA and NPF in recent years, noting that GSFA's last fees review was in 2014, and NPF's last fees review in 2019.
4. The Minister of Finance also proposes Board special fees for GSFA and NPF members serving on Annuitas Management Limited (AML)<sup>1</sup>. Established in 2001, AML is a joint venture between GSFA and NPF, with two Board members from each of GSFA and NPF parent boards serving on the AML board. The Minister of Finance proposes special board fees of \$42,250 (additional to the 9.7 percent fees exception) per board to remunerate AML Board members
5. To date, Board members from GSFA and NPF serving on the AML board have not been remunerated and the workload of the AML Board has increased significantly over the years, from an historical average of three meetings per year to six in 2021, and eight in 2022.

<sup>1</sup> AML provides executive management (covering investment advice and oversight, schemes policy and administration, accounting, risk management, and related ancillary functions) and board secretariat services to the two joint venture partners.

*Toka Tū Ake Earthquake Commission (Toka Tū Ake EQC)*

6. Additionally, the Minister Responsible for the Earthquake Commission proposes a 10 percent increase to Board members' fees for Toka Tū Ake EQC. This equates to an annual fees increase from \$36,600 to \$39,600 for Board members (and from \$72,000 to \$79,200 for the Chair).
7. The rationale for the exceptional fee is to better reflect the increasing complexity, scale and challenge of governing Toka Tū Ake EQC. This includes the heightened volume, risk and complexity of the board's workload since the Canterbury earthquakes, and subsequent events that have led to a large number of claims.
8. The introduction of the National Disaster Response Model from June 2020 has also required organisational change as natural disaster related claims are lodged through private insurers in the first instance, requiring enhanced capability in Information Technology and Digital programme governance.

*Backdating*

9. Both Ministers propose to backdate the above increase to 1 July 2023. The Cabinet Fees Framework advises that backdating of increases should generally be avoided. Given the increase is proposed to take effect from 1 July 2023, the Commission does not consider the implementation date as a significant issue.
10. The Commission recommends you support both the Minister of Finance and Minister Responsible for the Earthquake Commission's requests for fee exceptions, with payments backdated to 1 July 2023. In both fee exceptions the Commission considers the proposals put forward by Ministers are justified. It is recommended that you agree to sign the attached letters supporting this revised proposal.

## Recommended Action

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We recommend that you:

- a **agree** to support the Minister of Finance's proposal to pay an exceptional fee to Board members of Government Superannuation Fund Authority and National Provident Fund

Agree/  disagree

- b **agree** to support the Minister Responsible for the Earthquake Commission's proposal to pay an exceptional fee to Board members of Toka Tū Ake Earthquake Commission

Agree/  disagree

- c **sign** the attached letter to the Minister of Finance

Agree/  disagree

- d **sign** the attached letter to the Minister Responsible for the Earthquake Commission

Agree/  disagree

- e **agree** that Te Kawa Mataaho release this briefing in full once it has been considered by you.

Agree/  disagree.



Hon Andrew Little

**Minister for the Public Service**

23/8/23

## **CABINET FEES FRAMEWORK REQUEST: Government Superannuation Fund Authority, National Provident Fund and Toka Tū Ake Earthquake Commission**

### **Purpose of Report**

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11. This briefing is in response to requests from the Minister of Finance and the Minister Responsible for the Earthquake Commission seeking your support for exceptional fee increases for the Government Superannuation Fund Authority and the National Provident Fund (Minister of Finance) and Toka Tū Ake Earthquake Commission (Minister Responsible for the Earthquake Commission).

### **Context**

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12. You have received a request from the Minister of Finance and a request from the Minister responsible for the Earthquake Commission, who are seeking exceptional fee increases for members of boards for which they are responsible.
13. These boards are, respectively, the Government Superannuation Fund Authority (GSFA) and National Provident Fund (NPF) (increases sought by Minister of Finance) and Toka Tū Ake Earthquake Commission (Toka Tū Ake EQC) (increases sought by Minister responsible for the Earthquake Commission)
14. Under the revised Cabinet Fees Framework, Ministers seeking exceptional fee increases for board members between 5 to 10 percent require support from you as the Minister for the Public Service.
15. An overview of each Minister's proposal and rationale for seeking a fee exception is set out in the section below. Te Kawa Mataaho (the Commission) advice is set out below.

### **Ministers' proposals**

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#### *Government Superannuation Fund Authority (GSFA) and National Provident Fund (NPF)*

16. The Minister of Finance is seeking your support for an exceptional fee increase for the members of the Government Superannuation Fund Authority (GSFA) and National Provident Fund (NPF) to better reflect these boards higher-than-normal workload.
17. The Minister of Finance is seeking to increase Board fees for members of both boards by 9.7 percent from \$30,800 to \$33,800 (\$67,600 for the Chairs). The increase of 9.7 percent for GSFA to \$33,800 is within the cap for a Group 3a level 1 entity (\$44,655 for members and \$90,123 for the Chair), and the increase of 9.7 percent for NPF to \$33,800 is also within the cap of for a Group 3a level 2 entity (\$36,773 for members and \$73,552 for the Chair).
18. The Minister of Finance notes that, while the GSFA and NPF's current board fees may have been at an appropriate level when they were last adjusted (in 2014 and 2019 respectively), the current fees do not adequately address the increased scale, complexity and challenge of governing both entities.
19. The Minister of Finance is also proposing board special fees for Annuitas Management Limited (AML). Established in 2001, AML is a joint venture between GSFA and NPF, with AML Board members drawn from the GSFA and NPF boards (two from each).

20. The Minister of Finance notes that the workload of the AML Board has increased significantly over the past few years, to the point where it is now equivalent to 50 percent of the time members spend on their GSFA or NPF Board responsibilities.
21. As such, the Minister of Finance has agreed to a proposal to remunerate AML Board members at a rate of 50 percent of the fees paid to members of the GSFA and NPF Boards. This would mean the Chair is remunerated at a rate of \$33,800 per annum and AML Board members at a rate of \$16,900 per annum.

#### *Toka Tū Ake Earthquake Commission (Toka Tū Ake EQC)*

22. The Minister Responsible for the Earthquake Commission Hon Dr Deborah Russell (Minister Responsible for EQC) is seeking your support for an exceptional fee increase for Board members of Toka Tū Ake EQC of an additional 10 percent on members' current fees.
23. An increase of 10 percent would amount to an increase in Board member fees from \$36,000 to \$39,600 (\$79,200 for the Chair) per annum. This is within the cap of \$44,655 for members of a Group 3a level 1 entity (the cap is \$90,123 for the Chair).
24. Additionally, the Minister Responsible for the Earthquake Commission proposes a 10 percent increase to Board members' fees for Toka Tū Ake EQC. This equates to an annual fees increase from \$36,600 to \$39,600 for Board members (and from \$72,000 to \$79,200 for the Chair).
25. The rationale for the exceptional fee is to better reflect the increasing complexity, scale and challenge of governing Toka Tū Ake EQC. This includes the heightened volume, risk and complexity of the board's workload since the Canterbury earthquakes, and subsequent events that have led to a large number of claims.
26. The Minister of Finance notes that current board fees were last set in the 2013/14 year and that the current fees do not adequately address the increased scale, complexity and challenge of governing Toka Tū Ake EQC.

### **Our advice**

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#### *Government Superannuation Fund Authority and National Provident Fund*

27. Te Kawa Mataaho (the Commission) notes the Minister of Finance's rationale for an exception due to the increased scale and complexity of governing GSFA and NPF in recent years, with board fees not having been adjusted since 2014 for GSFA and 2019 for NPF.
28. The Commission acknowledges the additional time commitment the four AML Board members drawn from the GSFA and NPF Boards have committed over the past years, and that this has not been remunerated.
29. The current economic and fiscal context is an important consideration that needs to be taken into account in considering fee exceptions. Ministers have signalled a strong focus on fiscal sustainability, and Crown boards have an important part to play in contributing to this outcome.
30. The Commission's view is that a 9.7 percent increase is justified for both GSFA and NPF and that a special fees adjustment for GSFA and NPF Board members serving on AML, is also justified.
31. The Minister of Finance has requested the exception for both GSFA and NPF is backdated to 1 July 2023. The Cabinet Fees Framework advises that backdating of increases should generally be avoided.

Given the increase is proposed to take effect from 1 July 2023, the Commission does not consider the implementation date as a significant issue.

#### *Toka Tū Ake Earthquake Commission*

32. The Commission notes the Minister Responsible for the Earthquake Commission's rationale for an exception due to the increased scale and complexity of governing Toka Tū Ake Earthquake Commission in recent years. This includes the heightened volume, risk and complexity of the board's workload since the Canterbury earthquakes, and subsequent events that have led to a large number of claims.
33. The introduction of the National Disaster Response Model from June 2020 has also required organisational change as natural disaster related claims are lodged through private insurers in the first instance, requiring enhanced capability in Information Technology and Digital programme governance.
34. Taking this information into account, the Commission's view is that a 10 percent increase, with backdating to 1 July 2023, is justified. Given the increase is proposed to take effect from 1 July 2023, the Commission does not consider the implementation date as a significant issue.

#### **Risks**

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35. There are no significant risks arising with the proposals considered in this paper. Approving the fee increases sought by Ministers will address recruitment and retention issues identified for the GSFA, NPF and EQC Boards.

#### **Next Steps**

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36. It is recommended that you:
  - a. sign and send the attached letter to the Minister of Finance advising your support to increase Board members' fees by 9.7 percent for GSFA and NPF, and Board Special Fees for members of AML, backdated to 1 July 2023
  - b. sign and send the attached letter advising your support to increase Board members' fees for Toka Tū Ake EQC of 10 percent, backdated to 1 July 2023.
37. If you agree, the Commission will proactively release this briefing in full once considered by you.