



# AIDE-MEMOIRE

SENSITIVE]

## Pay restraint talking points for 11 May CAB and introduction of Bill

**Date:** 8 May 2020  
**Minister:** Hon Chris Hipkins, Minister of State Services  
**Report No:** SSC 2020/0070

### Pay restraint talking points for 11 May CAB and introduction of Bill

**Purpose** Talking points for your draft Bill on pay restraint

**Date of meeting** 11 May 2020

#### Proposal

As part of a broader picture of pay restraint across the public sector, this Bill will enable the Remuneration Authority to reduce pay for specified positions by up to 20% for up to six months.

This amendment to the Remuneration Authority Act 1977 is required for those whose pay is determined by the Authority to be able to take the type of pay reduction Ministers announced they would take following CBC on 15 April.

#### What are the key components of the Bill?

- The Bill will insert a temporary section and related schedule into the Remuneration Authority Act 1977.
- The section overrides the requirement in the Act that no determination of the Authority shall result in a pay reduction.
- It enables the Authority to make determinations resulting in:
  - A reduction of up to 20%
  - For no more than six months
  - For the individuals and groups specified in the Schedule.
- Such determinations must be made no later than 30 June 2020, and the amendment to the Act expires on 31 January 2021.

#### Talking points for Cabinet

#### What is the plan for passage of the Bill?

- I propose that the Bill would pass through all stages on the same day without referral to a select committee.
- I will seek leave to do this by cross-party agreement.
- If this cannot be obtained it will be achieved by the use of urgency.

#### What has changed since our previous discussions and why?

##### One mechanism, one timeframe

- Ministers announced on 15 April that they would voluntarily take a pay cut of 20% for six months or until the next government takes office. Other leaders around the public sector made a range of similar announcements.

SENSITIVE

- 
- I originally proposed that Ministers, at least, would be covered by a self-initiated voluntary approach notifying the Remuneration Authority of what they wanted to do.
  - However, a voluntary approach risked a bidding war where people who were not necessarily well paid would feel pressure to volunteer for a reduction. Officials suggested various ways to manage this, for example by setting an income threshold below which it would not be possible to volunteer.
  - As we worked on the mechanics, I realised that a single mechanism – allowing the Remuneration Authority to determine a temporary reduction – had several advantages:
    - It avoided a perception that some would be volunteering while others 'were volunteered'
    - It enabled the Remuneration Authority to take a consistent approach across each group of people, while taking their situation, feedback and wishes (including charitable donations they might have made) into account
    - It maintained the integrity of the Remuneration Authority process – that what the Authority determines is what gets paid.
  - I also found that linking the reduction for Ministers to the timing of the next government taking office post-election was an unnecessary complication. Unless the election was deferred or government formation took much longer than usual, the difference between 'six months' and 'until the next government takes office' should be minimal.

**How does this change fit with what other senior leaders in the public sector are doing?**

- Public Service chief executives are arranging to take a pay cut of 20% for six months. For most that is already in hand with the State Services Commissioner.
- Several Crown entity chief executives are negotiating voluntary pay cuts with their boards. The State Services Commissioner is required to approve all increases to Crown Entity Chief Executive pay. He will withdraw previous guidance regarding annual reviews and indicate that he is unlikely to approve any increases.
- The State Services Commissioner will also issue letters to Public Service and Crown entity chief executives providing guidance on how the Government Expectations on Employment Relations in the State Services apply at this time, specifically:
  - minimising across the board percentage increases
  - continuing to focus on addressing gender and other pay inequities
  - acknowledgement of the increase available to employees through existing pay progression

targeting any remuneration increases to any low paid workforces.

---

**Author**

Margaret Mabbett, Principal Analyst, Strategy and Policy

**Manager**

Hannah Cameron, Deputy Commissioner, Strategy and Policy

## Draft First Reading Speech

### Remuneration Authority (Covid-19 measures) Amendment Bill

---

#### **Hon CHRIS HIPKINS (Minister of State Services):**

I move, that the Remuneration Authority (Covid-19 measures) Amendment Bill be now read a first time.

#### *Reason for change*

Our Government is leading in unprecedented times. As a result of the Covid 19 pandemic we are seeing world-wide disruption to our social and economic lives. In New Zealand, many in the private sector are losing their jobs or facing significant pay reductions.

On 15 April the Prime Minister announced that Ministers and Public Service chief executives had agreed to a six-month pay reduction in recognition of the wide impact of the Covid-19 pandemic on many people's incomes.

We were clear that this initiative is about leadership, not austerity – our Government will continue to work towards fair pay for lower-paid workers, especially the people we have been relying on as essential workers.

I note the solidarity displayed by other leaders across the Executive, Parliament and Local Government who have also committed to making a pay reduction.

- The Public Service chief executives whose pay is set by the State Services Commissioner have already implemented this reduction.
- Several Crown entity chief executives have reached agreement with their Boards to do the same.

#### *Mechanism for pay reduction*

Of course, many of those wishing to take this reduction, including Ministers, have their pay determined by the Remuneration Authority under the Remuneration Authority Act 1977. The Authority exists to de-politicise the setting of pay for public and statutory officials.

The Authority is not allowed to make a determination that reduces an individual's pay (other than for local government in some circumstances) – and the organisations making the payments must pay according to the determination.

I have considered several possible mechanisms to effect the pay reduction. Of these, I believe the simplest and fairest is to amend the Act to enable the Authority to make a temporary determination in regard to certain officers covered by the Act.

This approach allows the Authority to consider individual circumstances in each case, for example whether that person has already made an equivalent donation to charity. It also preserves the principle that the Authority determines what is paid.

#### *The Bill*

This is a time-limited Bill that comprises one clause and one schedule.

- The clause allows the Remuneration Authority to determine a temporary pay reduction of up to 20% for up to six months for some of the people whose remuneration it determines.
- The Schedule details which of the positions covered by the Remuneration Authority are within scope for the clause.

The Authority has the right to determine that no reduction, or a smaller reduction, is appropriate in the circumstances of some individuals, so reductions will vary. The Bill sets the maximum available reduction at 20% for a period of up to six months.

The Schedule sets out those who are covered by this Bill including many public sector leaders such as Ministers, MPs, chief executives of several departments, Crown entity members and local government elected members.

Some other positions where pay is determined by the Remuneration Authority are outside the scope of this Bill, including the judiciary, quasi-judicial roles such as tribunal members, governors-general and community board members.

*Process that will apply*

The Remuneration Authority consults with those whose pay it determines and can be trusted to apply any reduction carefully, fairly and in consultation with those affected.

Any determination for reduced pay will need to be made by 30 June 2020 and applied on or before 30 July 2020. The provision will expire on 31 January 2021.

After the temporary reduction determination expires, the pay of those affected will return to their base amount.

I commend this Bill to the House.

RELEASED BY SSC UNDER OUR COMMITMENT TO OPEN GOVERNMENT