



# AIDE-MEMOIRE

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## Pay restraint talking points for CBC meeting

**Date:** 14 April 2020

**Minister:** Hon Chris Hipkins, Minister of State Services

**Report No:** SSC 2020/0070

### Pay restraint talking points for CBC meeting

**Purpose** Talking points for your paper on pay restraint

**Date of meeting** 15 April 2020

**Proposal** The paper proposes a senior leader focused approach to achieving pay restraint in the public sector, including specific measures for short-term reductions in Ministerial and Public Service chief executive pay.

#### Why do we need restraint and how should we achieve it?

- We know that many parts of the New Zealand private sector are doing it tough at present.
- Continuing public trust and confidence in government – particularly Ministers and the Public Service - is vital to keep New Zealanders engaged through a successful Covid-19 response and recovery.
- They need to see that Ministers and the Public Service are doing their bit and that other parts of the public sector are following their lead.
- That is why I am proposing to focus on senior leaders' pay.
- I am asking the Committee to determine whether the benchmark level for reductions should be 15% or 20%.

#### Senior leaders' pay

#### Talking points

- Public Service chief executives have already stepped up – those whose remuneration is set by SSC are agreeing to a six-month pay cut at the level chosen by Ministers, followed by a freeze.
- For those of us whose remuneration is set by the Remuneration Authority it gets trickier. Their legislation prevents them from cutting anyone's pay themselves and it is unlawful for the paying agency to pay out less than the Remuneration Authority specifies.
- That is why I am proposing two set of amendments to the Remuneration Authority Act.
- The first will allow Ministers and the Prime Minister to seek a voluntary pay reduction of up to 15% or 20% depending on the benchmark level we choose.
- The second amendment will allow the Remuneration Authority to make determinations that result in a decrease of pay up to that benchmark level for a six-month period where they consider it justified by the

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current situation.

**Scope of the changes**

- I am proposing a broad scope for almost all those covered by the Remuneration Authority Act. As well as several departmental chief executive, this includes MPs, Parliamentary Officers like the Ombudsman, wider State Services and Local Government. Appendix 1 of the paper provides a full list.
- The Remuneration Authority already consults those affected on its determinations as a matter of good practice. I think it appropriate for the legislative change to include a requirement to consult those who may be affected by a reduction in pay.

**Message of restraint to Crown Entities**

- The State Services Commissioner will be encouraging Crown entities to follow these examples in determining the pay of their chief executives.
- 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 changes.

**Commencement of pay reductions**

- The pay reduction for Chief Executives will be implemented via a variation to their employment agreement, this can state any commencement date if agreed by both parties.

For Ministers, the reduction is illegal until the legislation is passed, meaning that commencement is dependent on the Parliamentary process. This may be mid-May if the omnibus Covid legislation is used.

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**Author** Margaret Mabbett, Principal Analyst, Strategy and Policy

**Manager** Hannah Cameron, Deputy Commissioner, Strategy and Policy