

# Review of Local Authority Remuneration Setting

Discussion Document

## Responses to this Discussion Document

Local Authorities are invited to respond to this discussion document – see section 8 for questions for responses.

Only one response from each council or board, please.

Responses may be sent to one of the following:

**A. To Local Government New Zealand (this is the preferred place to send responses)**

Local Government New Zealand has offered to collate the responses it receives.

Responses should be sent to:

**Mike Reid, Manager Governance**  
[mike.reid@lgnz.co.nz](mailto:mike.reid@lgnz.co.nz)

**B. To Representatives**

To any of the following representatives of local government with whom the Remuneration Authority is consulting:

**Richard Kempthorne, Mayor of Tasman**  
[richard.kempthorne@tasman.govt.nz](mailto:richard.kempthorne@tasman.govt.nz)

**Adrienne Staples, Mayor of South Wairarapa**  
[themayor@swdc.govt.nz](mailto:themayor@swdc.govt.nz)

**Dave Cull, Mayor of Dunedin**  
[mayor@dcc.govt.nz](mailto:mayor@dcc.govt.nz)

**Brendan Duffy, Mayor of Horowhenua**  
[mayor@horowhenua.govt.nz](mailto:mayor@horowhenua.govt.nz)

**Mick Lester, Chair Community Board Executive Committee**  
[mglester@clear.net.nz](mailto:mglester@clear.net.nz)

**Brian Lester, Chief Executive Ashburton**  
[brianl@adc.govt.nz](mailto:brianl@adc.govt.nz)

**Kevin Lamb, Administration Manager, Waimakariri District Council**  
[kevin.lamb@wmk.govt.nz](mailto:kevin.lamb@wmk.govt.nz)

**C. The Remuneration Authority**

Responses should be sent to:  
[info@remauthority.govt.nz](mailto:info@remauthority.govt.nz)

## Introduction

This discussion document has been prepared by the Remuneration Authority to facilitate a review of how the Authority goes about setting remuneration for elected members of local authorities in a way that meets the requirements of the Local Government Act and the Remuneration Authority Act.

The Remuneration Authority is consulting with representatives of local government in order to gain their input and insights into the review.

It is expected that a final proposal will be prepared following that consultation. The final decisions, of course, will be made by the Remuneration Authority.

This document:

1. Examines the need for a review
2. Outlines the expected consultation process
3. Sets out a timetable for the review
4. Outlines historic and current processes for setting residual pools for local authorities, noting any issues
5. Outlines historic and current processes for setting remuneration for Mayors of Territorial and Unitary Councils and Chairs of Regional Councils, noting any issues
6. Explains two broad options for future determinations of remuneration for elected members (excluding Mayors and Chairs) with high-level pros and cons for each option
7. Examines in more detail each option, including possible ways of implementing each
8. Outlines inputs which would be helpful from local government representatives.

The obligations of the Remuneration Authority for the setting of salaries and allowances for local authority elected members, as set out in the Remuneration Authority Act and the Local Government Act, are summarised in Appendix A.

# 1. Why Review?

The current pool system of setting remuneration for local authority elected members was established in 2001/02 after consultation with local authority representatives.

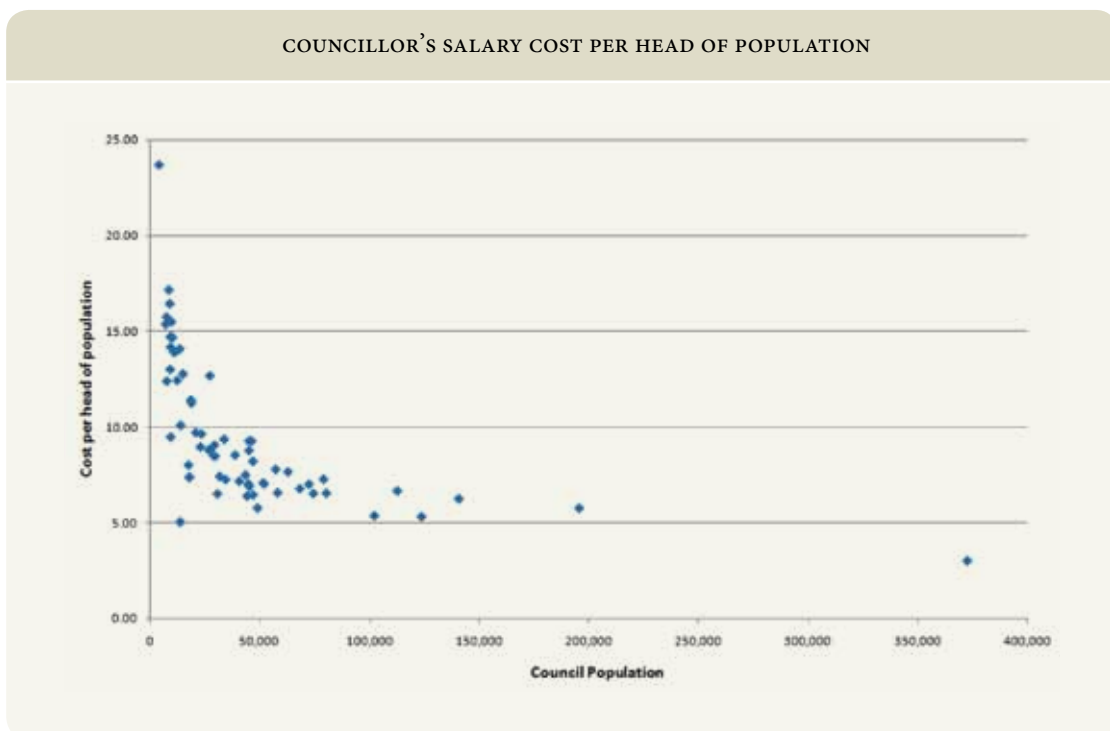
Under the system a pool is established each year for each local authority and the allocation of the pool to each elected member position is determined by the Remuneration Authority after considering representations from each authority.

It is appropriate to examine, from time to time, the outworking of any approach to remuneration setting and to ask whether the system employed is producing the 'right' answers and whether any unexpected or perceived unfair results are being produced.

Some analysis of the outworking of the current approach has been carried out. The analysis shows a variety of salaries for different councillors and Community Board members, in which it is difficult to see the reflection of a fair remuneration for the job. This is illustrated in some information drawn from the 2010/11 Determinations (post election).

## ■ Councillor salary cost per head of population

The following chart shows the total councillor salary cost (ie including supplements for additional responsibilities) per head of the local authority's population against the local authority's population base:



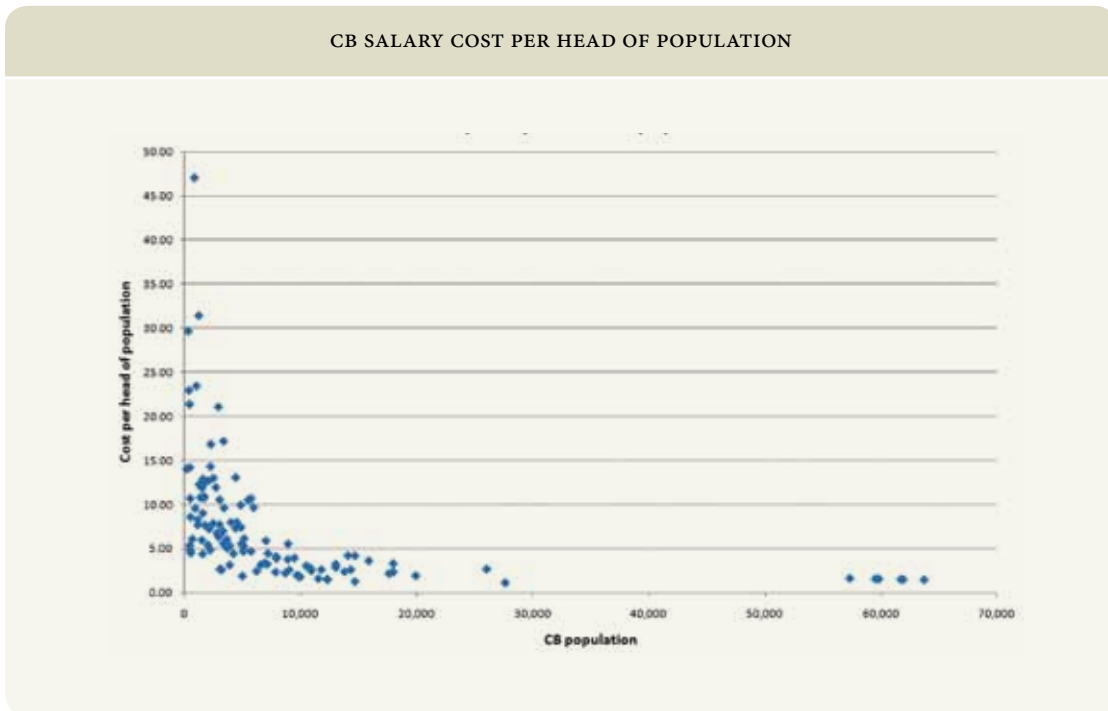
Some details are shown in the table below:

Council	Total Population	Number of Councillors	Population per Councillor	Cost per head of population
Christchurch	372,500	13	28,654	\$3.05
Far North	58,000	9	6,444	\$6.59
Tauranga	112,600	10	11,260	\$6.68
Queenstown – Lakes	27,140	10	2,714	\$12.69
Wairoa	8,420	6	1,403	\$17.17

This shows that ratepayers in different territories can be paying significantly different amounts for councillors' services. In particular, ratepayers in smaller territories are paying much more than ratepayers in larger territories.

### ■ Community Boards

The following chart shows the same information for Community Boards (an outlier has been excluded from this chart):



Some details are shown in the table below:

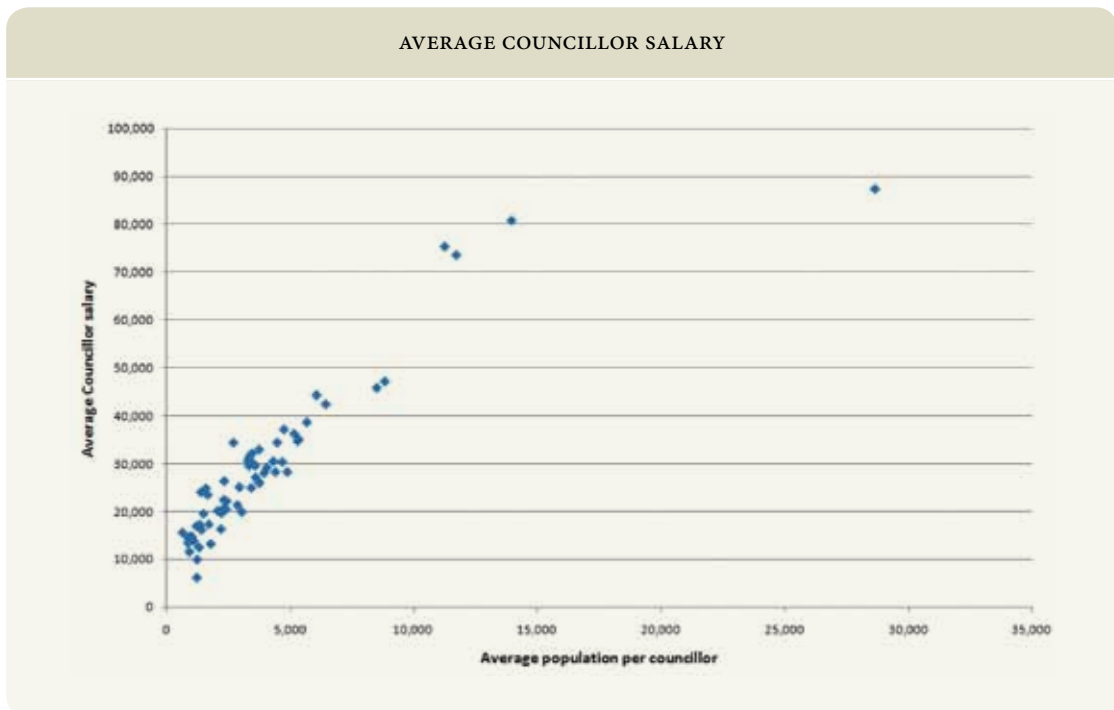
Community Board	Total CB Population	Number of CB Members	Population per CB Member	Cost per head of population
Greytown	3,050	6	763	\$2.65
Bay of Islands – Whangaroa	26,000	7	4,333	\$2.65
Lyttelton – Mount Herbert	5,710	6	1,142	\$10.66
Taupiri	460	8	77	\$10.67
Ahuriri	1,200	6	240	\$31.41

Clearly there are wide differences in remuneration levels between Community Boards. Some of the differences may be explained by different degrees of delegation given to different Community Boards, or different representational expectations between Boards. However, there do not seem to be any universal delegation or representational guidelines for Community Boards and the Remuneration Authority has no knowledge of levels of delegation or representational responsibilities for individual Community Boards. This leads to concerns that remuneration for the members of various Community Boards might not be reflecting a fair rate of pay for the job.

Most councils pay 50% of Community Board salaries from the pool, and some meet all Community Board salaries from inside the pool. There are no rules or guidelines set down anywhere to cover how Community Board salaries are to be funded.

### ■ Councillor salaries

The next chart shows average councillor salary (including additions for extra duties) against average population per councillor:



Some details are shown in the table below:

Council	Population per Councillor	Base Councillor salary <sup>1</sup>	Average Councillor salary <sup>2</sup>
Whakatane District	3,434	\$23,748	\$24,983
Taupo District	3,362	\$30,988	\$31,553
Kapiti Coast District	4,891	\$23,403	\$28,320
Napier City	4,761	\$34,000	\$37,178

This shows that there are wide differences between councillors' salaries for what appear to be similar-sized responsibilities.

### ■ Conclusion

The current pool system is giving results that seem to be counter intuitive.

It is also opportune to examine whether the current system is providing a fair remuneration for elected members, and the extent to which the Remuneration Authority should be involved in the allocation of the pools (if they are retained).

---

1. Base Councillor Salary is the salary paid to a councillor with no additional responsibilities  
2. Average Councillor Salary is the total salaries paid to all councillors divided by the number of councillors

## 2. Outline of Consultation Process (with timetable)

Activity	By Whom	Target Completion Date
Produce discussion document ready for discussion with representatives	Remuneration Authority	30 August 2011
Decide on representatives and advise Remuneration Authority (with details of main contact point)	Local Government NZ	15 August 2011
Meetings between Remuneration Authority and representatives, to outline issues, present discussion document, and discuss issues	Remuneration Authority and representatives	September 2011
Distribute discussion document to all local authorities, with request for any feedback by 10 November	Remuneration Authority	10 September 2011
Preparation of Preferred Option with details of how it will work and sample remuneration results	Remuneration Authority	30 October 2011
Review Preferred Option and feedback from constituencies	Representatives	15 November 2011
Meeting between Remuneration Authority and representatives to finalise details of Preferred Option	Remuneration Authority and representatives	30 November 2011
Implementation of Preferred Option for the 2012/13 year	Remuneration Authority	1 March 2012

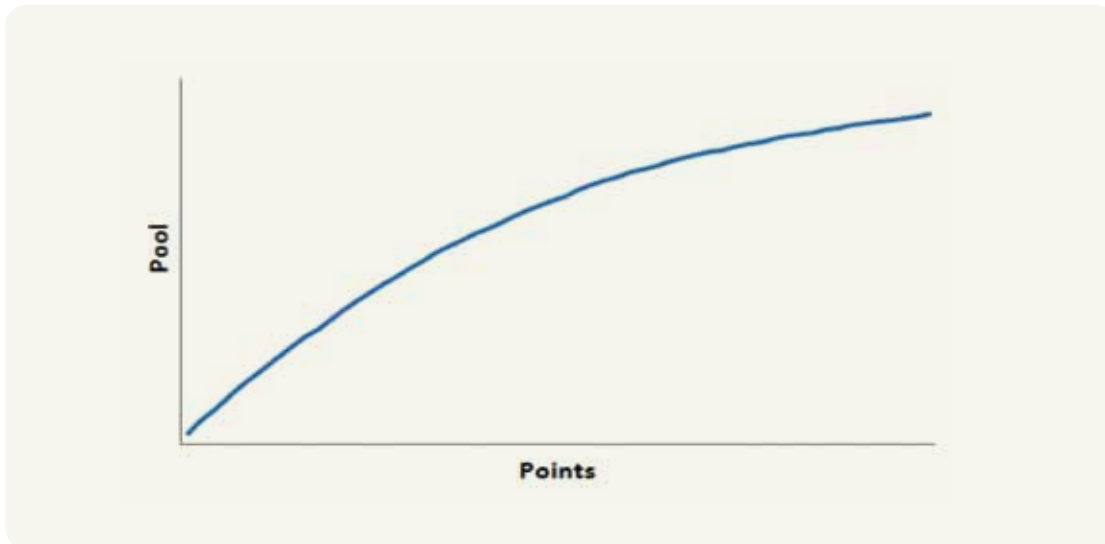
During the process the Remuneration Authority will keep the Local Government Minister and officials apprised of the process and its progress.

The timetable is tight but is achievable with full cooperation between all parties.



### 3. Outline of Current Process for Residual Pools

The residual pool is set each year by reference to the population, expenses, and net assets ('statistics') of each authority. Points are allocated using weights for each statistic. The size of the pool for each authority is derived from the points allocated to the authority using an algorithm<sup>3</sup>. The algorithm increases the pool size by tranches of points, where the higher points' tranches result in lower allocations to the pool. This produces a relationship between points and pool size as illustrated in the following graph:



An additional statistic (Capital) is used for Regional Councils.

Change factors, which recognise growth or decline in population (over the last five years) above or below the average for all authorities, are applied to the points before they are used to determine the pool.

A loading is applied for Unitary Authorities to recognise their dual responsibilities.

The weights used have remained unchanged over the years.

These are:

	Territorial and Unitary Authorities	Regional Authorities
Population	50%	30%
Expenses	33%	30%
Net Assets	17%	5%
Capital		35%

3. An algorithm is a set of instructions, sometimes called a procedure or a function, which is used to perform a certain task.

The algorithm for converting points to pool size has remained basically unchanged, apart from increasing the pool size in each tranche each year to reflect movement in wages. As an example, the algorithm used to convert points to residual pool amounts for the 2011/12 year was:

Points		Residual Pool
From	To	
0	11,245	61,300 plus (points – 0) times 6.22
11,245	31,235	131,215 plus (points – 11,245) times 5.33
31,235	63,594	237,719 plus (points – 31,235) times 5.22
63,594	127,189	406,636 plus (points – 63,594) times 4.65
127,189	190,783	702,361 plus (points – 127,189) times 3.82
190,783	254,377	945,441 plus (points – 190,783) times 3.09
254,377	317,971	1,142,002 plus (points – 254,377) times 2.47
317,971	381,566	1,299,002 plus (points – 317,971) times 1.88
381,566	445,160	1,418,310 plus (points – 381,566) times 1.31
445,160	508,754	1,501,794 plus (points – 445,160) times 1.13
508,754	572,349	1,573,753 plus (points – 508,754) times 0.88
572,349	1,224,899	1,629,616 plus (points – 572,349) times 0.88

Until 2010, the total number of points for all councils was equal to the total population for all councils divided by the population percentage. As a result the total number of points was equal to twice the population (for Territorial and Unitary Authorities), as adjusted each year. Because the basic algorithm remained unchanged, pool sizes increased each year by both the increase in population and the wage movement adjustment. This may have distorted pool sizes, both overall and relatively.

From 2010 the figure for total points was kept constant and the algorithm adjusted by movements in wage growth only. There were further adjustments to the algorithm to compensate for the removal of the Auckland councils from the pool-setting process.

The method of determining and applying the change factors was also changed from 2010 to better reflect perceived additional remuneration needs for councils whose population movement was other than average.

Total pools are advised to each local authority, which then makes recommendations to the Remuneration Authority regarding allocation of the pool between various elected member positions.

Some councils apply part of the pool to the payment of meeting fees. The daily rates for meeting fees and the maximum fees payable vary considerably between councils.

## ■ Issues Arising

1. Councils with the same pool sizes but different numbers of councillors have different per councillor salaries
2. The existence of Community Boards does not affect the points or residual pool size so that Councils with Community Boards have lower councillor salaries
3. Generally, 50% of Community Board salaries are met from the pool – is this ideal?
4. Do the current residual pools enable the payment of reasonable salaries for councillors and Community Board members?
5. Should there be separate pools for councillors and Community Board members?
6. Rates set for meeting fees, and maximum amounts, vary considerably between councils
7. Should meeting fees be allowed? If so, should there be a standard rate or rates?
8. Recommendations about how the pools should be allocated between positions of increased responsibility vary considerably between councils – should there be some standardisation?
9. Should the Remuneration Authority set minimum councillor salaries (depending on council size) and thereby possibly limit the amounts available for additional responsibilities?
10. Should the Remuneration Authority specify standard positions for additional responsibilities?
11. Should there be some extra allowances (over and above the pools) for district planning meetings?
12. Are there conflicts of interest for councillors in setting their own allocation from the pool?

## 4. Outline of Current Process for Mayors and Chairs

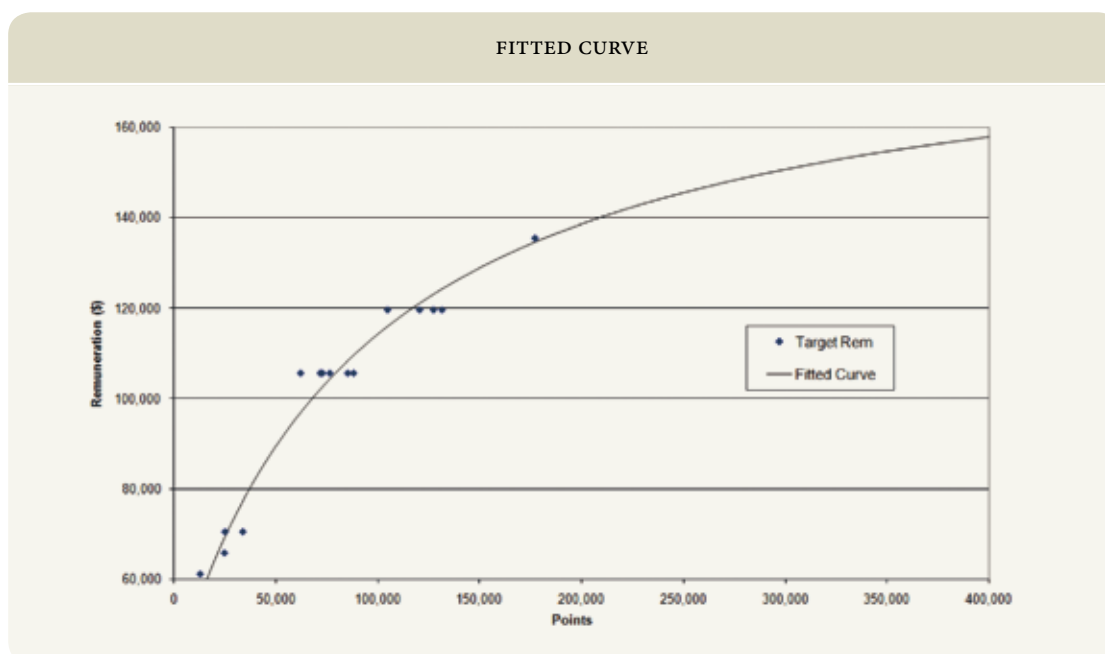
A system similar to that used for setting residual pools (see above) was used up to 2010.

From the 2010/11 year the system was revised.

The revised system:

- Identifies sample councils (both Territorial and Regional) for which the mayoral and chair positions have been independently job sized
- Sets target remuneration for those sample councils by reference to the Remuneration Authority's standard remuneration scales (which are reviewed annually) and the proportion full time deemed for each sample position
- Assigns points for each sample position, using the same statistics as are used for the residual pools (Population, Net Assets, Expenses and, for Regional Chairs, Capital)
- Finds a curve (or formula) that gives the best fit<sup>4</sup> of points and target remuneration for the sample councils. For Territorial and Unitary councils the weights for each statistic are the same as those used for the residual pools. For Regional councils the weights are varied for each statistic to enhance the best fitting process
- The formula for the curve is then used to determine remuneration for all positions by assigning points using the optimum weights for the statistics.

As an example, the sample points and fitted curve are shown for Territorial and Unitary councils for the 2011/12 year:



We are comfortable with this revised system for mayors and chairs. It is likely that we will use the enhanced Regional system for Territorial and Unitary councils in future years.

<sup>4</sup> Two candidate curves are used – a rectangular hyperbola with offset and a power curve with offset. Curve fitting is done using Excel Solver Add-in. Goodness of fit is measured by use of the R2 statistic.

## ■ Issues Arising

1. The need to ensure that suitable sample councils are identified, given they must represent all councils and must cover the range of the size of councils
2. The need to ensure regularly that the positions are correctly sized for the sample councils
3. The need to ensure regularly that the proportion of full-time work a position is deemed to have is fair and reasonable
4. Are salary reductions for the provision of mayoral or chair cars fair and reasonable?
5. Could the Remuneration Authority allow changes to cars (or usage) during the year, within set bands, without the need to adjust salaries?

## 5. Options for the Future

Two broad options have been identified for setting remuneration for councillors and Community Board members.

### ■ Pool Approach:

This is similar to the approach used in the past. It has the following key features:

- A pool is determined for each authority (either a single pool or one pool for councillors and one for Community Board members)
- Councils recommend the allocation of the pool for Remuneration Authority approval
- The Remuneration Authority may set minimum councillor salaries and/or specify standard councillor positions.

Pros and cons for this approach are:

Pros:

- Allows councils the flexibility to arrange their councillor roles to best meet their particular circumstances
- It is a system many are used to.

Cons:

- Councillors with similar-sized responsibilities in different councils may be paid markedly different salaries
- 'One size fits all' for councils with differing numbers of councillors or Community Boards may not be the best way
- Can be administratively complicated.

### ■ Specified Salary Approach:

This approach would have the following key features:

- The Remuneration Authority would specify the base councillor salary for each council, based on an estimate of relative council size
- The Remuneration Authority would specify the base Community Board salary for each Community Board, based on an estimate of relative Community Board size
- The Remuneration Authority may allocate an amount for each council that could be used to increase councillors' salaries to recognise increased responsibilities, or be used for meeting fees.

Pros and cons for this approach are:

Pros:

- Councillors with similar job sizes would be paid the same
- Perceived greater fairness between councils
- Community Board members' pay may be fairer.

Cons:

- Removes some ability for councils to arrange their salaries and positions to best meet their particular circumstances
- Some councillors' salaries might have to 'mark time' or be reduced if the salaries are higher than the set base salary
- The Remuneration Authority would need to job-size more positions and to assess the proportion to which those positions are full time
- It might be difficult for the Remuneration Authority to assess the time and degree of complexity relating to the governance and representational aspect of councillors' jobs.

## 6. Pool Approach

### ■ How it will work

A pool approach would have the following features:

- A method to rank councils by 'size'. The 'size' will reflect the extent and complexity of the council's business. This can be done by job-sizing selected councils on the basis of the job size if the whole of the council's governance were carried out by a single person. Statistics (eg population, expenses) for the selected councils can then be used to find a combination of the statistics ('points formula') which gives roughly the same number of points for each council of the same size. The 'points formula' is then applied to all councils so that each council has a number of points allocated to it
- A method to determine a fair pool size in relation to points. This can be done, for sample councils, by assessing a fair salary for the councillors (taking into account the size of the job and assessed proportion to which the position is full-time), multiplying by the number of councillors and adding a margin for additional responsibilities to get a fair amount for each council's pool. An algorithm can then be found which translates the points for each of the sample councils to give the fair pool amount. The algorithm is then applied to the points for each council
- There may be some adjustments to the resulting pools to recognise:
  - a. Significant changes in an individual council's population base
  - b. The presence or otherwise of Community Boards
  - c. Efficiencies or additional responsibilities of Unitary Councils
  - d. Additional work of councils in years when there are District Planning reviews
- The Remuneration Authority may set some guidelines on minimum salaries and/or additional remuneration for additional responsibilities
- There may be some guidelines on the use and amount of meeting fees
- The Remuneration Authority will determine remuneration after considering recommendations by councils.
- The Remuneration Authority may issue some guidelines on appropriate additional salaries for sample positions with additional responsibilities.

### ■ Issues

Issues to be addressed for the pool approach:

1. How to establish 'correct' pool size and 'correct' relativities:
  - a. Build up from councillor job sizes and Remuneration Authority standard pay scales?
  - b. How should correct full-time proportions for councillors in different councils be assessed?
  - c. How much extra should be available for additional responsibilities?
  - d. Separate pools for Community Boards?
  - e. What proportion of Community Board salaries should come from the pool?
2. What statistics to use to establish 'correct' relativities between councils:
  - a. Population, assets, expenses?
  - b. What weights?
3. How to translate points to pool size:
  - a. Stepped algorithm or smooth curve?
  - b. Need to review whole process regularly to ensure it still remains fair and reasonable.
4. Should the Remuneration Authority set minimum councillor salaries for each council?

5. Should the Remuneration Authority set standard salaries and positions' descriptions for positions of responsibility?
6. Should meeting fees be allowed? Should rates and caps be standardised?
7. Should there be extra pool amounts for years in which district plans are reviewed?
8. Should there be some recognition of varying governance and representational roles between councils? How?
9. Should the representational roles of Community Boards be recognised by reducing the representational component of salaries for councillors whose wards include Community Boards? How?
10. Should a change multiplier continue to be used to recognise population growth (or decline) outside the average?
  - a. Does change in population numbers really make a difference to size of job or time required to do job?
  - b. What formula should be used to recognise growth or decline outside the average?
11. How should the additional responsibilities of Unitary Councils be addressed?
  - a. Use a Unitary multiplier (currently 1.25)?
12. How should the transition to new system be managed?
  - a. Minimum pools?



## 7. Specified Salary Approach

### ■ How it will Work

A Specified Salary approach would be likely to have the following features:

- The Remuneration Authority would set the base salary for each councillor for each local authority. The base salary is likely to be based on the job size and the proportion full time that is assessed as being needed for the position's responsibilities to be effectively carried. Research to date has indicated that there are about three different job sizes across all local authorities and the proportion full time ranges from 20% (equivalent to one day a week on average) to 80% (equivalent to 4 days a week on average). The relativities between local authorities (job size and proportion full time) will need to be determined.
- The Remuneration Authority will set the base salary for each Community Board member. The base salary is likely to take into account the population base of the Community Board and the level of delegation to the Community Board.
- An additional pool will be allocated to each local authority to enable the payment of additional salaries for additional responsibilities. It is possible that part of that pool could be used for meeting fees. The additional pool is likely to be based on a fixed percentage of the total of the base councillors' and community board members' salaries.
- The Remuneration Authority will determine the additional salaries and/or the meeting fees' rules after considering representations from the local authorities.

### ■ Issues

Issues to be addressed for the Specified Salaries approach:

1. Identification of sample councils from which to job size standard councillor positions and full-time proportions
2. What statistics are to be used to establish 'correct' relativities between councils:
  - a. Population, assets, expenses?
  - b. What weights?
3. Should the representational roles of Community Boards be recognised by reducing the representational component of salaries for councillors whose wards include Community Boards? How?
4. How much extra (over and above standard salaries) should be allowed for additional responsibilities?
5. Should the Remuneration Authority set standard salaries and position descriptions for positions of responsibility?
6. Should there be some recognition of varying governance and representational roles between councils? How?
7. Should there be some recognition of population growth (or decline) outside the average?
  - a. How?
8. Should meeting fees be allowed?
  - a. Standard rate?
  - b. Standard cap?
9. Should there be extra pool amounts for years in which district plans are reviewed?
  - a. How much?
10. How should the additional responsibilities of Unitary Councils be accommodated?
  - a. Use a Unitary multiplier (currently 1.25)?
11. How should the transition to a new system be managed?
  - a. Minimum pools?

## 8. Questions to which Responses are Sought

It will be helpful to the Remuneration Authority if respondents give their views on the following (as well as views on any other relevant matters):

1. Preferred approach – Pool or Specified Salary? Reasons?
2. The best ways of establishing relativities between local authorities
3. Appropriate local authorities to use as representational samples
4. Proportion full time appropriate for local authorities of differing sizes
5. Should meeting fees be allowed? Set rate and cap?
6. Should allowance be made for the extra work generated by planning reviews in the years in which District Plans are reviewed? How?
7. If the Pool approach is chosen:
  - a. Should the Remuneration Authority set a minimum salary for councillors?
  - b. Should the Remuneration Authority set a minimum salary for Community Board members?
  - c. What are the best statistics to measure relativities between councils? Population? Expenses? Assets? Capital?
  - d. Should pool size be set independently of the existence of Community Boards?
  - e. What portion of community board salaries should be met from the pool?
  - f. Should pool size be adjusted for abnormal population growth or decline?
  - g. What is the best way to recognise the additional responsibilities of Unitary Councils?
8. If the Specified Salary approach is chosen:
  - a. Should standard salaries reflect the existence of Community Boards (ie be reduced if there are Community boards)?
  - b. How much extra money should be allowed for additional responsibilities and/or meeting fees?
  - c. Should the Remuneration Authority set standard salaries and positions' descriptions for positions of responsibility
  - d. Should standard salaries be adjusted for abnormal population growth or decline?
  - e. What is the best way to recognise the additional responsibilities of Unitary Councils?

# Appendix A

## ■ Remuneration Authority's Obligations

The Local Government Act, Schedule 7 section 6, provides that:

1. The Remuneration Authority must determine the remuneration, allowances, and expenses payable to elected members
2. The Remuneration may do one or more of the following things:
  - a. Fix –
    - i. Scales of salaries
    - ii. Scales of allowances
    - iii. Ranges of remuneration
    - iv. Different forms of remuneration
  - b. Prescribe –
    - v. Rules for the application of those scales, ranges, or different forms of remuneration
    - vi. Rules for reimbursing expenses incurred by elected members
  - c. Differentiate –
    - vii. Between persons occupying different positions in different local authorities or community boards
    - viii. Between persons occupying equivalent positions in the same local authorities or community boards
    - ix. Make determinations that apply to individuals, or groups occupying equivalent positions
3. Section 19 of the Remuneration Authority Act applies.

The Remuneration Authority Act has the following provisions which apply to determinations made under the local Government Act:

Sections 18 and 18 A require the Authority when making determinations to have regard to, or to take into account:

- a. The need to achieve fair relativity with levels of remuneration achieved elsewhere
- b. The need to be fair to both –
  - a. The people whose remuneration is being determined, and
  - b. Taxpayers or ratepayers
- c. The need to recruit and retain competent people
- d. The requirements of the position concerned
- e. The conditions of service for those whose remuneration is being determined and conditions of employment for comparable positions
- f. Any prevailing adverse economic conditions.

Section 19 covers the frequency of determinations and adjustments to determinations.
