

2 March 2015

**POST-CABINET PRESS CONFERENCE: MONDAY, 2 MARCH 2015**

**PM:** OK. Good afternoon. As reported last week, the Remuneration Authority made an increase to MPs' pay of about 3.5 percent. As you've been aware, I've been expressing my concern at the level of increase for some time, and so Cabinet today has decided to legislate under urgency to, one, change the criteria in the Remuneration Authority Act 1977 to take away the authority's discretion on MPs' pay increases; two, the sole new criteria will be the average public sector pay increase for the previous year as the total compensation; and, thirdly, the legislation will be backdated under urgency to 1 July 2014.

Based on the most recent data from Statistics New Zealand, the average public sector pay increase is in the order of 1 to 2 percent. Increases for MPs will therefore be in the range of 1 to 2 percent instead of the 3.567 percent increase announced by the Remuneration Authority. Ministers anticipate more detailed advice from officials on the measure to be used, which will be set out in legislation, likely to be introduced in the next sitting session. I anticipate this will be a long-term change. The balance here is to ensure pay increases in the public sector are reflected in MPs' pay in the fairest way possible.

The decision was not taken lightly, given that it changes several decades of practice with the Remuneration Authority. However, it's clear that changing the criteria is the only way the Remuneration Authority will start handing down more modest pay increases for MPs.

Recently the chair, John Errington, referred specifically to the criteria set out in the legislation as the reason behind the increases. So changing the law is the most effective way of ensuring that this will happen for this year and into the future.

MPs do not get treated—we're obviously conscious and want to ensure that MPs do not get treated more generously than public servants. This only relates to MPs. Judges' remuneration will be reviewed on the same basis that is currently.

As you know, I hosted the Australian Prime Minister, Tony Abbott, in Auckland late last week for our annual leaders' talks. Australia is our largest trading partner and largest economic partner, so it's important that we continue to work closely together on issues that affect both countries. Prime Minister Abbott and I discussed a wide range of political, economic, social, and security issues. I was pleased that we were able to announce arrangements between our two countries for the recovery of student loans and for more information sharing around employment vetting. We also agreed to accelerate work on arrangements to exchange information in relation to trans-Tasman deportees.

This year is a significant one for both our countries, for the co-hosting of the Cricket World Cup and the centenary of the Gallipoli campaign and the formation of the Anzacs. One hundred years on from the Gallipoli landings, my meeting with Prime Minister Abbott underlined that the relationship between New Zealand and Australia is as strong as ever.

Finally, I'd like to acknowledge what was a fantastic sporting weekend for pretty much everyone in New Zealand, unless you were a Crusaders supporter. I was at Eden Park on Saturday for the Black Caps' thrilling win over Australia, and, once again, would like to congratulate Brendon McCullum and the team. The Black Caps are in outstanding form and I wish them all the very best for the rest of the tournament. New Zealand is 100 percent behind them.

I was also in Christchurch yesterday to see Lydia Ko win the New Zealand Open. She is a superb athlete with golfing skills I could only dream of, and I wish her all the very best as she undertakes her next tournament in Singapore this week.

In terms of my own activities this week, I'm heading to Christchurch tomorrow for a number of visits and to get updates on the progress there. I'll be in Waikato on Wednesday and Auckland on Thursday, Nelson on Friday. I'll be travelling to Northland as part of the National by-election campaign—on Thursday I think it is.

Questions?

**Media:** Prime Minister, why did it take 5 years for the Government to act on this?

**PM:** Well, initially, actually, the pay increases were more modest. They actually did listen to us, and they reflected the concerns we had around the global financial crisis. Secondly, my concerns are—and this has been a reoccurring theme in probably the last 12 months of discussions now with the Remuneration Authority—that the current Act suggests to them that they should be looking at relativity, at least, with other parts of employment. But that includes the private sector. And you can see that they strongly feel as though they should be moving Cabinet Ministers, and me as Prime Minister, up to a level which would be more reflective of what we were doing in the private sector. And I think that that is fundamentally wrong.

**PM:** Secondly, I think that sort of broad-based level we've got to for MPs and Ministers is about right. So recognising that what we put in place now is going to be a very long-term move, because I think it's unlikely Governments are going to want to change this, we need to make sure that we are fair. I think we should be paid as pay increases no more, in my view, than the average of what nurses and doctors and teachers and other State employees are paid. So, in fairness, you know, I think you can always argue the merits on these things, but I reckon we're going to land in the right place, in my view.

**Media:** Do you think 1 to 2 percent is an acceptable pay rise for people?

**PM:** Well, of course we would always like to see more, but that is what we have been saying to the public sector for some time—that we expect them to show restraint. That's the Government living within its means. We have been making that case incredibly plainly and clearly to the Remuneration Authority. What's clear this time is that that pay increase that they have suggested didn't reflect that. It was 3.5 percent, broadly, as opposed to something that looks more like 1.5 percent. Now within their capacity to change cash for non-cash items, they should be free to continue to do that. That actually, despite the fact that gets reported that way, doesn't actually increase an MP's salary. It's just a change in the mixture of compensation that's paid. But, in my view, a much more realistic pay round would have been between 1 and 2—probably nearer 1.5, but certainly between 1 and 2. That's what the public sector was last year, and that's much more reflective than 3.5.

**Media:** So you are, effectively, going to nullify this latest pay rise and award yourselves what—1 to 2 percent?

**PM:** Well, effectively, yes, but what we're going to do is we're going to—we're getting official advice on what the exact best long-term measure is, but essentially it reflects the average of the public sector pay round for the year earlier, and then under urgency we are going to pass that through all stages so that the current pay round, which was gazetted—in effect, it does not go through.

**Media:** John, this is quite a practical question, but has that back-pay from the latest pay round actually gone into bank accounts?

**PM:** Not yet. It could potentially go in next week. And if it did, the overpayment will have to be repaid.

**Media:** So any MPs that get that money banked would take it out and give it back to the—

**PM:** Well, effectively you'd deduct it from source next time. And lots of people get overpaid, and then they have it taken off them the following week.

**Media:** Doesn't this just reflect the growing inequality in the wider economy between those at the very top and the rest?

**PM:** No. What it reflects is that the public sector pay round that's been going through, you know, the big groupings in the public sector—nurses, doctors, teachers—has been sitting in a slightly lower band than what is recommended by the Remuneration Authority. Secondly, that the Remuneration Authority, at the core of it in their beliefs, believe that MPs should be disproportionately earning more over time.

**Media:** Putting Bernard's question another way, I mean what you're trying to show is, presumably, leadership, when you're asking public servants to only take 1 to 2 percent, so you don't believe you should take any more.

**PM:** Correct.

**Media:** Shouldn't then chief executives in the private sector who are asking similar things of their employees show the same leadership?

**PM:** Well, that, in the end, is up to them. I mean, I can't control them; I don't even try to control them. They have to consider through all of the different factors. Sometimes their pay is very volatile because of bonus payments and the like. Sometimes they take massive pay cuts, actually, because of the fact that they don't get a bonus payment. And in the end, the private sector under a National-led Government has been rising at a slightly faster rate than the public sector. But my point is simply: as politicians, you know, and as the Government we send very strong signals about what we can afford for the public sector. I just don't think it's right that we should be saying to the public sector: "We think living within our means is 1 to 2 percent, but, by the way, an independent body—despite all the things that we tell them very directly and very plainly—is going to give us more than that." I have been making that point to them for some time. In the end, they have said "This is the reason why we're doing that.", so we're changing the law.

**Media:** Doesn't 1 to 2 percent imply you're actually getting real wage deflation in the public sector, because the Reserve Bank is supposed to target around 2. You're saying we're going to lock in deflation for the public sector.

**PM:** No, we're not locking in 1 to 2. What we're locking in is the average public sector wage increase. So at the moment inflation is running at 0.8 percent, so even at between 1 and 2, there's been a real wage increase. You know, I've got to—obviously I've got to make decisions that, and reflect the fact that this stuff is unlikely to change, ever, because there isn't going to be a Government that's going to stand up in front of New Zealand any time soon, in my view, and reverse these decisions, because they would be legislating to give themselves higher pay increases. So I've got to make sure that 50 years from now we don't have some sort of system in place where MPs are proportionally just getting further and further behind, but actually I don't think we will be. If it was solely the CPI, then you'd say there would never be a real wage increase for an MP. And I don't think that's what New Zealanders expect, but I don't think that New Zealanders expect them to have their wages go up at a faster rate than the average of the public sector.

**Media:** You mentioned the pay rounds of, is it—I can't remember—is it teachers?

**PM:** Well, quite a few of them are coming up soon.

**Media:** Yeah, I mean is this actually just a bit of a shot across the bow to them that they can't expect anything more than 1 or 2 percent?

**PM:** Well, in the end we'll go through those negotiations, but the Minister of Finance has been very clear. You know—in the end we have a billion dollars to live with, in terms of our new budget spending. We've asked people to show restraint in the past and

fundamentally we're asking them to show restraint in the future. Inflation's running at under 1 percent—that would still be a real wage increase.

**Media:** Have you picked up a sense, though, that the unions were perhaps going to pick up on the increase that had come through the Remuneration Authority to push for higher increases for public servants and others?

**PM:** Well, you saw that with the teacher unions late last week coming out and saying they shouldn't expect to be paid less than what MPs were, and actually they had a fair point. Even though the systems are different, even though it was beyond our control, they had a fair point and I happen to agree with them. I don't think that they should be getting less than what basically MPs are getting, and as I've said last week—and I meant—I think MPs are getting too much, so we'll change the system.

**Media:** You said yesterday that you are willing—you've offered to sit down with Muslim leaders and talk to them about issues—have you actually issued that invitation?

**PM:** Well, my understanding is yes. I mean, there's constant discussion between my office and other Muslim leaders. I'm going out to one of the mosques pretty soon, but I'm more than happy to talk to them about the actions that the Government's taking. But they are constantly in discussion with various parts of, you know, essentially, my administration and my office.

**Media:** But [*inaudible*] two different groups issued an invitation asking you to sit down with them and talk to you about the foreign fighters legislation. They'd also like to talk with you about sending troops to Iraq, and they haven't heard back from your office.

**PM:** Well, I'm more than happy to talk to them—at some point we will. Our decision to send the partner, building partner capacity group to Iraq has been well signified and, I think, articulated by us. It's the decision that we've made, but I'm more than happy to talk to them about it.

**Media:** But don't you think you should have sat down with them before you made those decisions, given they've been asking for those meetings?

**PM:** Well look, in a perfect world maybe if we can go through that, but at the end of the day we understand their concerns. As I say, they feed things in, but we're more than happy to talk to them about it, but we've made our call on what we're doing.

**Media:** How would you describe the scale of our contribution to Iraq?

**PM:** Modest.

**Media:** Do you think we're doing too much, perhaps, given the size of our country?

**PM:** There's no indication of that. I mean there's 62 countries that are making some sort of effort. If you look at Australia, they have 600 people there at the moment; they'll probably have more over time. Proportionally, you know, those proportions feel about right.

**Media:** If you just look at the troops and remove the personnel doing the air strikes, New Zealand's actually doing a lot more than most. Is that right?

**PM:** I don't, no, I don't think that is right, and there's a range of different contributions that countries are making, and some activities are arguably riskier than others. Actually, being completely behind the wire and in the most secure environment that you can provide—you might have a few more people but actually arguably, you know, that those are less risky environments than, say, accompanying people out in the field, as some countries are.

**Media:** 143 troops—that's actually, we're contributing more troops to Iraq per capita than any of our other close allies.

**PM:** Well, again, you just want to be a bit cautious about, sort of how you quote some of those numbers, because as we know that's the maximum number and it allows for the facts that, you know, there are changeovers and different things happening. I think on

balance, you know, if you look at what we're trying to do, which is be part of a training group, if you like, at Taji, then, you know, we had to get those proportions about right with our partner and, in my view, they are.

**Media:** Australia's just issued essentially a no-go zone notice for its citizens to go in Mosul. Have we done anything like that, or will we do anything like it?

**PM:** I don't think we've done that. I mean, the advice from MFAT is it's a very high-risk environment and people shouldn't travel to Iraq, but I don't think there's a formal "you cannot go there".

**Media:** Do we ever, you know—would that be something you'd consider?

**PM:** I'd need to get advice on MFAT for that. I don't think I've ever seen a situation where we'd physically—we do certainly send strong advice that people should not go unless it's absolutely urgent, and we'd strongly encourage people not to go to Iraq and Syria on the basis that it's a risky and dangerous environment. I mean we're sending people to a quarantine part of that with a huge amount of protection around them. But as a general rule, we think it's a dangerous environment to go in. But you'll always get people that'll exercise their right as, you know, humanitarian aid workers, or others that will choose to go there.

**Media:** By describing it as modest, are you saying that we're doing the bare minimum?

**PM:** No, but I think, you know, at the end of the day, it's not the bare minimum, but if you look on the continuum of things that we could do, clearly, you know, there's a lot more things that you could do. You could have a lot more people and you could put them in a lot more dangerous environment. I mean, we're there for a 2-year period of time, we're there solely behind the wire, we're there with a modest number of trainers, and with a significant force protection around them.

And, as I said consistently last week, if not that and we are to make a contribution, because we feel as a country we should, then what? Because I can't name something. It's all very well Andrew Little saying he supports air strikes. Well, he knows, like I know, we don't have an air capability. His previous Prime Minister got rid of it. It's all very well saying going out there build roads, and schools, and hospitals, but he knows, like I do, it's infinitely more dangerous because you're at risk of being, basically, kidnapped in that sort of environment, or killed in a very exposed environment. So, you know, we asked for a range of advice on all the options available to us and, in my view, the least risky and most modest, really, was sending the particular group we're talking about for a short period of time.

**Media:** Prime Minister, are you aware of the allegations that New Zealand may be harbouring war criminals suspected of—*[inaudible]*

**PM:** Well, I only saw some vague media reports, and I think they've been rejected in so much they can.

**Media:** The Refugee Council have rejected them.

**PM:** Yeah, the Refugee Council rejected—

**Media:** But were you aware of, sort of, more—

**PM:** No, I'm not aware of any information that would support that it's true.

**Media:** Is it the kind of thing that you think should be looked into—

**PM:** I think they'd be concerned about it, but obviously, but I don't there's a lot of validity to it. I'm sure someone will look into it, but—

**Media:** Will the Government have to bail out Solid Energy again?

**PM:** Ah, look, Solid Energy is in a very delicate position, has been for quite some time. You probably noted the changes in board make-up. They've been in ongoing consultation

with the banks. There's really not much more I can say at the moment other than they're working their way through that situation.

**Media:** Are there any circumstances in which the Government would inject any money into the company?

**PM:** I wouldn't want to speculate on that at this time.

**Media:** So will Solid Energy have to cut its staff again, shut down operation?

**PM:** Again, I—look, they're in very delicate negotiations with the banks.

**Media:** What sort of time frame are you looking at for some sort of resolution?

**PM:** It's an ongoing issue, so I can't be absolutely precise, but it's sooner as opposed to later in terms of resolving the next steps.

**Media:** Is Solid Energy trading at the moment on its implicit Government guarantee?

**PM:** No, I don't think I'm overstepping the line in saying that it still has equity and it still has cash in the bank.

**Media:** Do you have any idea why Pip Dunphy quit?

**PM:** Yes.

**Media:** Can you tell us?

**PM:** Ah, no. I think you'd be better to take that up with the board.

**Media:** Is it related to concerns about the scope of the indemnity that the Government's offering?

**PM:** I just wouldn't want to speculate on that.

**Media:** When the United States sent its first tranche of troops into Iraq, Barack Obama broke down those numbers. He said how many troops were going to be doing force protection. Will you tell us how many of our troops are going to be designated force protection?

**PM:** How many? I think it's unlikely, only on the basis that I think our partner doesn't necessarily want to do that, and there's all sorts of other reasons. I'm not overly sensitive to it. I mean you—I don't think it takes a rocket scientist to go away and work out that if there are 16 dedicated trainers, and potentially 106 people and you need logistics people, and you need that, and there's a whole bunch of other people who do, you know, some training as well, that, you know, it's kind of in a range of acceptable number. But what I would say is this: is that we take the safety and security of our people very seriously. It is a paramount issue of importance. So, clearly, you know, we're gonna make sure that we have our very best people keeping everyone there as safe as we possibly can. So I'm quite comfortable that we've got the right balance there.

**Media:** It's about one to one though, isn't it, taking all those things that you've just mentioned into account?

**PM:** Ah, be more than one for one.

**Media:** Is 16 trainers enough to have any practical effect beyond being a sort of token force?

**PM:** Yes, because they're dedicated trainers, and they train individual groups, obviously, so there's lots of soldiers that come out as a result of that. There are plenty of people who also form the part of the 106 who have some training as part of what they do, and in the end, it's the capacity, actually, for that base I think to actually, you know, realistically over a 6 or 8 week programme, whatever they run—to work their way through, you know, upskilling those soldiers.

**PM:** I think as I said on Q+A yesterday—I mean, it's easy for people to say the contribution or the numbers are small, but at the end of the day that's always the argument for New Zealand in everything we do, from climate change to whatever. So, basically, it will make a difference, and part of what we're trying to do is train the trainers so that when we go after 2 years' time they've got a, you know, a renewable and ongoing capability to train their own people.

**Media:** Prime Minister, just looking at the Internet Party and the Internet Mana Party's expenses, it works out that Kim Dotcom spent about \$102 for every vote they got. What do you make of that in terms of bang for political buck?

**PM:** Not good value for money.

**Media:** Then, in terms of Pam Corkery, the press secretary, she—

**PM:** Well, she certainly had bang for her buck, didn't she? She had bang, I think, or whatever it was she was doing on that Sunday afternoon.

**Media:** Yes, she got paid \$15,000. Was that worth it?

**PM:** I wouldn't pay her 15 grand for it, but it was great entertainment, so at one level it was probably worth it.

**Media:** Treasury today has released its advice to Ministers, talking about the level of immigration and its impact on housing, and essentially they're saying that their forecasts in December are probably too conservative now and that net migration could go even higher than the 52,000, with a knock-on effect, obviously, in the longer term on housing. Have you got any concerns about that?

**PM:** Well, there's no question that immigration has some impact on housing. It's not a perfect science, because some of it is being driven solely by the fact that people aren't leaving. Many of them may already be accommodated and some of the people that come in have different set-ups, different conditions. They may rent for a while, for instance. But ultimately, if your population's rising, by definition, you need more places to accommodate them. So, generally, the Reserve Bank takes the view that net migration is positive for the economy but has some spillover implications. All I can say is if you think about where the bulk of those migrants go is Auckland, and in Auckland the pipeline of building activity is very significant. So I think, from the top of my head, 84 of the 100 special housing areas are in Auckland, for instance.

**Media:** Are you concerned then that building consents seemed to stall at the end of the last year, beginning of this year, according to various—

**PM:** Well, I take all that with a bit of a grain of salt. I mean, I had discussions with the mayor when I went to see him on Thursday or Friday of last week. He's extremely confident that those numbers are charging ahead.

**Media:** It does suggest, though, doesn't it—the numbers that Treasury's forecasting—that you need to even step up above the level that was previously established for house building or consents.

**PM:** Well, as you would expect, my office takes a look at all the special housing areas that have been zoned, all of the resource applications that are granted, all of the, you know, bulk sort of building construction numbers—so we have a sense of what that pipeline looks like over the next 5 to 7 years, and it's tracking at a very, very substantial increase. I mean, you can find, believe it or not, quite a lot of people in Auckland on the construction side that are a bit concerned there'll be too many houses in a few years. It's not a one-way street. I mean, if you take Christchurch, for instance. There was quite a lot of concern that there wasn't enough supply in Christchurch. If you go down to Kaiapoi and Rangiora—certainly the outskirts of Christchurch now—you'll find that there's quite a lot of supply on the market. So catch-up does happen. And in the end the Government can control migration. If we don't think those migrants are actually adding to the solution, then we can—we have, outside of

Australia and at certain times Pacific islands, great capacity to alter those numbers if we think they're going too quickly.

**Media:** And you don't intend to do that?

**PM:** Well, at the moment, the advice we get is that the people are required on the skills category, they're in different parts of New Zealand. Some of them are working holidays. It's a lot of different factors in there, but, generally, they have been bringing skills into the country.

**Media:** So it's a no.

**PM:** Well, we always measure it and we always monitor it. And, look, when the global financial crisis came and there were problems with the labour markets obviously weakening, we really did clamp down on the number of people that can come in. But at the moment these people are actually significantly adding to the economy.

**Media:** At what point, though, do you actually look at the demand side? Because house price inflation in Auckland is running in double digits—in some cases 25 percent on a year ago.

**PM:** Yep, so there'll be a lot of different factors, and again, you know, things go up and they go down, and people sometimes—and the market sometimes, as we know, get ahead of themselves. There are plenty of times when we're talking about oil at \$100 a barrel and dairy prices at \$8.30, and, actually, to be honest it ain't too much different than people's expectations of housing markets. We're used to them going in one direction, but there are plenty of countries where they don't. So in the end, what I'd sort of say to you is yes, it's an Auckland supply issue—there are other parts of the country but largely an Auckland supply issue. There's a huge amount of supply taking place in Auckland. We're going to keep working on that at a significant rate.

**Media:** Just on Solid Energy again, has the company asked for Government assistance, for financial assistance?

**PM:** Look, it's been a very long and complicated process, and I'm not going to kind of go into the machinations of what's been happening. You've seen what we've done over time, which is we have injected more capital into the company. They have a reasonable amount of private-sector debt, and we've made it quite clear to the company and to the bankers involved that that debt is their responsibility.

**Media:** So who owns the company? Who makes the decisions on this company now? Is it the Government or the banks?

**PM:** No, the board and the management make the decisions about the company.

**Media:** But the future of this company is determined presumably now by the bank?

**PM:** It's not quite as straightforward as that. What you've got is a situation where the banks have an exposure to the company, and the question is: how do they best believe that they can get some of that money back. And like any situation where a company is in a delicate trading position, then the bankers always think through their options, and there's no question that the bankers are thinking through their options at the moment.

**Media:** So is it the case that if the banks aren't prepared to take the hit, that Solid Energy will go into receivership?

**PM:** I wouldn't want to make those comments today.

**Media:** Can you rule out putting more cash in?

**PM:** Sorry?

**Media:** Can you rule out putting more taxpayer cash in?

**PM:** It's not the Government's preferred option to do that.



**Media:** Would you expect a resolution before the Budget?

**PM:** Yes.

**Media:** Bradley Ambrose's defamation action against you is going to trial next year. Do you think you can win?

**PM:** I just wish he'd get on with it. I mean, we're wanting to go to court—the sooner the better. We're very confident about our position, and it's him that's slowing the process down. So if he wants to go next week, let's go next week. Thanks very much.

**conclusion of press conference**