

9 March 2015

POST-CABINET PRESS CONFERENCE: MONDAY, 9 MARCH 2015

PM: OK. Good afternoon. So as I mentioned here last week, Cabinet has decided to legislate under urgency to remove the Remuneration Authority's discretion in setting MPs' pay. I also said that the sole criteria for MPs' total remuneration would be the average public sector pay increase for the previous year. As we agreed, that legislation will be backdated to 1 July 2014. I indicated this would mean a pay rise this year of between 1 and 2 percent for MPs, instead of the increase of around 3.5 percent set by the authority.

I can confirm that Cabinet has today agreed that the average annual percentage change in the public sector pay, as measured by Stats New Zealand's quarterly employment survey, will from now on determine MPs' pay rises. That means MPs' overall pay rise for the year starting 1 July 2014 will be 1.5 percent, and it will be backdated to that date. That's less than half of what the Remuneration Authority decided, and in my view is far more appropriate. I've also made clear last week that the authority will continue to have the ability to change the mix of cash and non-cash items. That has no impact in terms of overall total compensation, but they retain the right to actually make those changes.

We have chosen the Stats New Zealand measure for three very good reasons. Firstly, the quarterly employment survey has been used by successive Governments for setting changes in New Zealand's superannuation and paid parental leave. Second, the average annual percentage change smoothes out some of the volatility that can appear in the straight annual movements of the QES. And, finally, this measure will meet my objective of ensuring that MPs' remuneration changes are in line with the wider Public Service.

This indexing of MPs' salaries to the quarterly employment survey will be done at the same time each year, following publication of the June quarterly employment survey. Legislation covering this change will be introduced to the House under urgency this week, and we expect it to be passed the same day. We anticipate MPs will receive this more modest increase, including the backdated component, in the coming weeks.

Northland—well, there's obviously been a lot of interest in the Northland by-election, and I'm sure it wasn't lost on you that I was in the southern part of the electorate on Saturday, campaigning with National's candidate Mark Osborne. Mark, in my view, is an outstanding candidate. He's a local guy who understands the issues facing Northland. Mark tells me the response he's been receiving in the electorate has been very positive, and he'll be working hard to win the trust and confidence of the people of Northland over the next few weeks. Overall, the by-election is tracking well and we are gaining momentum, from what we can see.

You would have seen this morning that Mark announced with Simon Bridges that National will commit to replacing 10 single-lane bridges on State highways in Northland over the next 6 years. This is a positive announcement for the north, along with our \$1.75 billion investment in the Pūhoi to Wellsford motorway and the three-quarters of a billion we've already spent on local roads and highways in Northland since we came into Government. This will open up Northland for economic development and tourism, and make the roads much safer for Northland.

Just in terms of the House this week, the Government will progress a number of first readings, including: the Weathertight Homes Resolution Service Amendment Bill, the Radiation Safety Bill, and we intend to introduce the New Zealand Flag Referendums Bill. On Wednesday we will have a 2-hour Budget policy debate, replacing the general debate. And, finally, in terms of my own activity this week, I'll be here in Wellington today and tomorrow and Wednesday. I'll be in Northland on Thursday, and I'll be in Auckland on Friday, and then I'll be in Queenstown during the weekend. Questions?

Media: If Mark Osborne doesn't win Northland, I assume that the bridge-building will still go ahead?

PM: Yes, it will. Look, in the end, we've been very committed to the roading projects in Northland. We've spent three-quarters of a billion dollars there in the last 7 years—it's 40 percent more than Labour spent in the time that they were in office. We're very committed to Pūhoi to Wellsford. So, yes, these bridges need upgrading and they will be.

Media: Why has it taken Winston Peters joining this race to get the bridges in the first place?

PM: No, I don't think that's right. I mean, we've spent three-quarters of a billion dollars so far on roads in Northland. We committed to Pūhoi to Wellsford well and truly long before Winston Peters ever came along. But, look, this is a by-election, and in elections you spell out your policies. This is one announcement we've got. We've got several other announcements we'll be making in the coming weeks. You would expect us to want to campaign, and for Mark to want to campaign on what he wants to achieve as the next MP for Northland.

Media: It does look like pork-barrel politics though, doesn't it?

PM: Well, I think it's really important that actually we spell out to Northlanders what our intentions are. We do that in a general election, and we do that in a by-election, unashamedly.

Media: When did you decide?

PM: Sorry?

Media: When did you decide?

PM: Well, last week we were looking through the various policies we want to announce—so they were finalised, I suppose, last week. We've got another couple of announcements. We'll be making another one this week on something else. So we've been—you know, as part of the overall by-election strategy, we work through the particular policy announcements we've got.

Media: Are those 10 bridges justified on the cost-benefit analysis that the ministry has done?

PM: You'd have to ask Simon Bridges that. I don't know. I assume that's the case. I mean, the ones that the local councils have lobbied very hard for, some of them, you know, without doubt would definitely have been done anyway. They've always been on the list, but the issue has been about their priority. What we're saying is, look, we'll make sure we give them the priority over the next 6 years.

Media: Prime Minister, what do you make of Andrew Little's signal to Labour voters to vote for Winston Peters?

PM: Not terribly surprised. I mean, look, in the end, you know, what you've really got happening in Northland is a drag race between kind of the old sort of informal coalition—Labour, the Greens, NZ First—versus National, and that makes the race a bit more interesting, and it's obviously going to make it tighter, because instead of us versus Winston Peters—which would be pretty straightforward, I would have thought—it's now us versus, you know, three or four political parties ganging up. But, look, that's the way it goes. That's the nature of by-elections. That's why they're often a bit tight, and you couple that with a lower turnout, you know, it adds to the unpredictability. But we're very confident. We've got a good candidate, actually. I think this guy's performing well. He knows the local area well. He's very passionate about it. I think he'd be a very, very good MP.

Media: And what do you make of Andrew Little's language? It was very guarded, although obviously a hint.

PM: Yes.

Media: What do you make of his language, not being upfront, essentially, about what he's doing?

PM: Well, he's a bit all over the shop, because you look at some of the comments he's, on the one hand, been making about Winston Peters, but on the other hand, you know, clearly giving a signal. It wasn't that subtle that, you know, Labour voters should vote for Winston Peters. I mean, it is what it is. He may as well be upfront about it.

Media: Is it a deal?

PM: Yes, clearly. Look, I think they've done a deal.

Media: It is a deal?

PM: Well, I think they have. I mean, you know, I can't explain it any other way. I mean, if he was serious about people voting for his candidates, it's pretty clear he just needs to come out and say Labour voters should vote for their candidate. He's not saying that.

Media: Why do you think he's not being open like you are these days quite open with your deals? Why is he not?

PM: Well, I think he's being a bit hypocritical. I mean, the Labour Party criticise us for these things but, actually, they've done this sort of stuff before, and that's clearly what their intention is here. If it's not, then he can clarify that straight away. All he needs to do is come out and say: every Labour voter should vote for the Labour candidate. I bet you won't hear him saying those words directly.

Media: He doesn't need to, does he, if you're doing it every 5 minutes?

PM: Well, the point is we're pretty upfront about what we did. We did that in the last election. We were very clear about it. There was no, you know—There wasn't any sort of hidden stuff about it. We weren't the ones criticising people for doing it. But it's not the first time they've got people to tactically vote. They also did that, in my opinion, in places like Epsom, where they got Labour voters to vote for, you know, a National candidate.

Media: Going back to the bridges: this is now Government policy? I'm just trying to get to the bottom of how a National Party candidate who isn't even part of the Government announces a policy that presumably hasn't gone through Government yet, or has it?

PM: Oh, well, the ministry—it's going to be Government policy in so much that the Government is signalling quite clearly to Northland it's committed to these projects. It's going to cost us, you know, between \$32 million and \$69 million. It'll have to be allocated as part of the process. So, you know, it's not unusual for a candidate to go and campaign on things that are going to happen, and we see that all the time. I mean, I remember standing on the edges of the Waikato Expressway in 2008 saying: "If I'm Prime Minister, and we win the election, well, we'll be building the Waikato Expressway." We did that. Last year, you might remember—I think it was at the National conference, from memory—we had Roads of Regional Significance, where we laid out the roads we were doing. So, yes, I mean, we—

Media: But this isn't quite like that, is it? Because this is going to happen irrespective of whether he is in Government or not?

PM: Yes. But the point is it's a by-election. So Winston Peters has got his ideas. I [Inaudible] happen to think they're top priorities, but he's got his ideas. We've got our ideas; and we're campaigning on it. You know, politics is the battle of ideas. That's what we're doing.

Media: Are you bringing forward these announcements? If there weren't a by-election, would you have announced this this week?

PM: Probably not this week, but we need to understand we're in an election, and in election campaigns, you announce your policies—what you're going to do. There's no point in us, you know, waiting 2 months and saying to the people of Northland: "Oh, by the way,

this is what we're intending to do." I mean, they're entitled to know upfront, before they vote, what our intentions are.

Media: Prime Minister, what was the last big policy announcement that you made during a by-election campaign?

PM: Can't—can't tell you. Don't know. I'd have to go and have a look.

Media: But can you remember?

PM: Well, the last one was today—10 new bridges at, uh, thing.

Media: Can you recall—

PM: Another one before that?

Media: Another policy promise during a by-election campaign?

PM: Ah well, I'll have to go and check them.

Media: Do you think you might not have ever done this before?

PM: Don't know. But we're in the middle of a campaign, and we intend to make a number of policy announcements. If you think this is the last, you'd better keep glued to the TV sets because there's plenty more coming.

Media: Would you have announced this if Winston Peters had not stood?

PM: Yes, because we want to campaign to win that seat, and we're in an election campaign. This is a policy for ideas, you know, and it's a campaign on ideas. We've got a candidate that we're running. We've got some good ideas for Northland. We've got a very good track record up there. We've spent three-quarters of a billion dollars—40 percent more than Labour—created lots of jobs, and we've got lots of ideas, and we're going to continue to talk about those.

Media: [*Inaudible*] appears though, isn't it? It's policy. I mean, what you're announcing is policy, which is distinct from an idea that Winston Peters has.

PM: Well, it just shows the difference though doesn't it? I mean—

Media: It shows that you're in Government

PM: We're in Government and we can do things. He's in opposition and he can just yap on about things. So you know, there's quite a big difference. We'll be doing things, and we have been doing things for Northland, and I actually think our record's a very good one. That's why our party vote numbers are so strong there—I mean, they're 50 percent.

Media: One of the most important sort of ideas that's at stake in this by-election is the future of your RMA reforms. But we don't see the draft of the bill at some point during the campaign?

PM: Don't think it's ready yet. It hasn't come to Cabinet yet, so given we're running out of time—I mean I'm here next week for Cabinet; the week after I'm overseas. So I would be amazed if we saw it before then.

Media: Isn't that the sort of policy you should be upfront and focus on before a by-election?

PM: Well, in the end the critical point there is for the people of Northland. I think the RMA reforms really do matter, and passing those is critically important. So, in terms of needing the vote of the next Northland MP, absolutely that's critical. But they can't hurry something up that's a very complicated piece of legislation.

Media: On the GCSB—I mean, this morning you were asked about Bruce Ferguson's comments—is there a difference between "mass surveillance" and "mass collection"? Can you draw the distinction between that?

PM: I'm sure the lawyers would tell you there's a difference but, you know, I'm just not going to go and critique all of those different points. I mean, the fundamental issue with the GCSB—and to a certain degree it's true with the SIS—is that they can—you know, in the case of the GCSB, they're our foreign intelligence agency. They gather intelligence about particular reasons; they have for many, many, many Governments' lifespan. They do it for good reasons, and they're controlled by the law. But I'm not going to go into what their particular targets are, what a warrant is raised for, you know, how information is actually gathered, and how it's processed. And no—by definition it's covert. No agency does that. So in the end, you know, you've got a bit of, sort of—in my opinion, what you sort of demonstrated with the moment of truth - stuff last year was the moment of inaccuracy. Because, actually, what they came out and said was just plain wrong. And in my opinion some of the assumptions—or the definitions of the assumptions—are wrong, and some of the way the information is presented is wrong. But I'm just not going to go through all of those individual things because, in the end, that's just not the way you run those intelligence agencies.

Media: Well, you said you'd resign if there's found to be mass surveillance out of GCSB. Does that promise apply to mass collection of information as well then?

PM: No, because in the end—you know, I was asked a very specific question—without recreating history—and that was: are we conducting mass surveillance of New Zealanders? And the answer is no. That's the advice I've had from GCSB. It's not capable of doing that and, legally, it's not allowed to do that.

Media: But you've just said no to the question: "Does it apply to mass collection?" So mass collection would not trigger—if it was proved that there was mass collection, it wouldn't trigger a resignation under the promise you've given?

PM: No.

Media: So it means—because the possibility is surely—and I don't know why this can't be clarified, but the way GCSB operates is it hoovers up a whole lot of information and then just drops out the material that relates to New Zealanders.

PM: Well, that's your assessment of it. And, look, in the end, the law is pretty clear. The law says you can't collect information about New Zealanders unless there are certain circumstances, and in the event that you collect incidental information about New Zealanders then, you know, there's a way of treating that. And so my view is, look, we have the law; we have the purpose and what it's allowed to do. And, actually, you have an inspector-general that's both had the resources massively increased and the powers significantly increased. And in the—so far, in the 12 months that the new inspector-general's been in the job, she hasn't raised with me concerns. I'm sure she'll continue to do her work. She'll continue to look at these matters. No other previous inspector-general has raised concerns with me. The assurances I've had on a repeated basis—because, as the former Minister, I've asked them on numerous occasions, especially when the questions were being asked some time ago—and the absolute assurances I've had from the Minister is that they do not undertake mass surveillance against New Zealanders. That's all I can tell you.

Media: Prime Minister, what's your view on the Reserve Bank's proposal to increase capital requirements for rental property mortgages?

PM: Well, I haven't seen the proposal other than the sort of—they haven't actually brought it to me. I'm sure they may well have spoken to Bill English about it, but they haven't spoken to me about it, so I can only look at the media reports of that. Look, there might be some logic in that, but we'd have to see.

Media: Because property investors say that this would increase their costs and put up rents.

PM: Yes, and that's always the concern. It's one of the reasons why I don't like capital gains taxes, because I think, in the end, the instance of those capital gains taxes are actually paid by those people renting properties. But in the end, you know, the Reserve Bank, as we know, is trying to expand the number of tools it has in its tool box to ensure that it can keep interest rates lower for longer. I mean, given where inflation's at, goodness know where those interest rates are going, but, you know, they certainly look like they're going to stay low for quite a lot longer.

Media: What about if they looked at some form of income ratio to lending that is used, say, by the Bank of England?

PM: I just don't have enough details on that. I mean—strikes me what the Reserve Bank's trying to do is—it's clearly, you know, given what it was doing around the LVRs, was trying to ensure that there's not a bubble emerging in the housing market and that it can control where it sees the pressure points, but doing so in such a way that it's not having to overall increase interest rates. I mean, in reality, given you've got inflation at 0.8 percent, and, I think, potentially lower when the new information comes out, then I think you've got a scenario where there's not an option, actually, for the bank to raise interest rates. So it does have to find other ways, potentially, in that sort of very benign inflation environment, to work out how it can control what it sees as pressure in the system.

Media: Don't they have an option to cut?

PM: Well, I don't know. I mean, in the end that's a matter for the governor. But the Act is quite clear. The Act says that, you know, the bank's got to work to have inflation at its midpoint of 2 percent. And it's 0.8 percent, and all the signs I see is that potentially it's going lower from that level.

Media: What would a cut do to the Auckland housing market?

PM: Well, I don't know. I mean, you know, it's great for mortgage holders, and, I mean, it's great for the, you know, probably 540,000 people in Auckland who own a house who—some of whom will have a mortgage. And it's good for businesses and things. But overall, you know, clearly it also helps, you know, increase demand, because it makes it more affordable for people to buy a home.

Media: Are you concerned, then, the Reserve Bank might undershoot the target—fail to meet its policy target?

PM: I just don't know. I'm—all I know is that there doesn't appear to be any upward pressure on inflation and, generally, if anything, it looks a bit like it's downward. And the Act's quite clear about, you know, what point they're shooting for, which is 2 percent.

Media: Right. So they should—they should move towards the target that continues to trend lower? The Reserve Bank should do what?

PM: It's a matter for them. The governor has to decide.

Media: But you would take a dim view, equally, of an undershoot over a long period of time as an overshoot, in terms of the governor's—

PM: The governor has to manage it, and he—they—you know, he or she has the flexibility to ride things out a little bit. But overall, there's a reason why the target's set at 2 percent. That's what's, you know, perceived to be the correct level of underlying inflation in New Zealand.

Media: And how long would it be acceptable for the Reserve Bank Governor to be wildly outside that band or away from that midpoint?

PM: Don't know. I mean, you'd obviously expect to cut them a bit of slack because, you know, they make their interest rate predictions or—and changes for an inflation view 18 months out. You know, it's quite a long way into the future, and they are working on lots of

different factors. So it's a bit like turning around an oil tanker. It's not quite as simple for the governor, in his defence, at the moment.

Media: But, you know, is there a—is there a—3 years too long to be outside the band?

PM: Don't know.

Media: Did you see it trending lower over that 18-month period?

PM: Well, I wouldn't be surprised—I don't know for a fact. I just wouldn't be surprised, with everything I see, that inflation's lower. I mean, look at oil prices; they're coming down. The exchange rate's still been reasonably strong. Imported inflation looks to me to be pretty low—

Media: So playing devil's advocate, shouldn't they be doing something to bring it back up, in forecast terms, to the midpoint of their range sometime over the 18-month period?

PM: Technically, that's what the Act would say, yes.

Media: Well, only technically? I mean—

PM: Well, as I said, you know, there's discretion and subjectivity in what they do.

Media: Isn't the Reserve Bank Governor acting outside his mandate, because he's got interest rates higher—a large part of that is to control house price inflation—and that's not his mandate? His mandate is underlying inflation, and that's too low.

PM: Well, his—it's—I'd have to go back and re-read the Act, but his core responsibility is an inflation target, but within that there's a whole bunch of other criteria that sit around that, and that's, for instance, you know, employment and economic stability. And he'd just be arguing, I think, that it's within some of those other criteria.

Looks like you don't want me anymore. Bye-bye.

Conclusion of press conference.