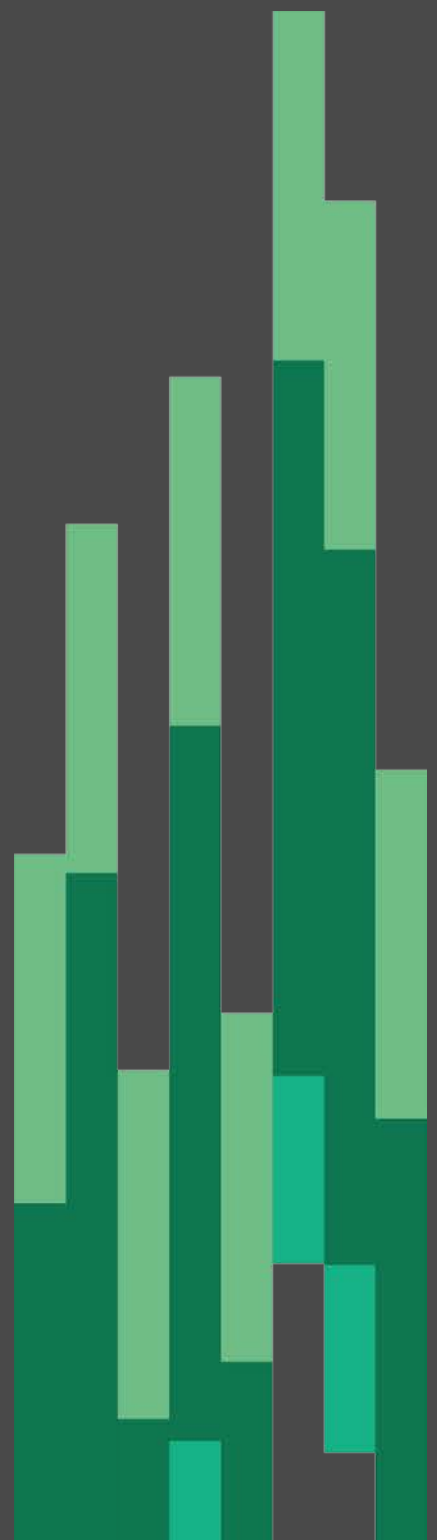


Members of Parliament (Victoria) Annual Adjustment Determination 2020

Victorian
Independent
Remuneration
Tribunal



Victorian Independent Remuneration Tribunal and Improving Parliamentary Standards Act 2019 (Vic)

Part 3—Annual adjustment Determination in relation to Members.

Members of Parliament (Victoria) Annual Adjustment Determination 2020



- A. Pursuant to section 18(1) of the *Victorian Independent Remuneration Tribunal and Improving Parliamentary Standards Act 2019* (Vic) (VIRTIPS Act), the Tribunal determines to make no adjustment to the values of the salaries and allowances set in the *Members of Parliament (Victoria) Determination 01/2019*.
- B. Pursuant to section 16 of the VIRTIPS Act, the Tribunal determines to delete clause 7.1 of the *Members of Parliament (Victoria) Determination 01/2019* and replace it with the following:
- 7.1 For the financial year ending 30 June 2020 the basic salary portion per annum is \$168,901.
- Note: from 1 July 2020, the value of the basic salary portion is automatically indexed under section 10(1) of the *Parliamentary Salaries, Allowances and Superannuation Act 1968* (Vic).
- C. This Determination commences on 1 July 2020.
- D. The *Members of Parliament (Victoria) Determination 01/2019* as varied is available on the Tribunal's [website](#).





Warren McCann

The Honourable Jennifer
Acton

Barbara Belcher AM

Chair

Member

Member

Victorian Independent
Remuneration Tribunal

Victorian Independent
Remuneration Tribunal

Victorian Independent
Remuneration Tribunal

Date: 26/06/2020

Contents



Introduction	5
1 Context	7
1.1 Scope of the Determination	7
1.2 Legislative requirements	8
1.3 Consultation	8
1.4 Members of Parliament (Victoria) Determination 01/2019	9
1.5 Review of Members of Parliament Guidelines	10
2 Economic factors	11
2.1 Current and projected economic conditions and trends.....	11
2.2 Financial position and fiscal strategy of the State of Victoria.....	14
2.3 Victorian Government’s Wages Policy	16
3 Tribunal’s considerations	17
3.1 Values of salaries and allowances	17
3.2 Conclusion	18



Introduction



The *Victorian Independent Remuneration Tribunal and Improving Parliamentary Standards Act 2019* (Vic) (VIRTIPS Act) establishes the Victorian Independent Remuneration Tribunal (Tribunal). The Tribunal has the functions and powers to inquire into and make Determinations in relation to the salaries and allowances of Members of the Parliament of Victoria (MPs), remuneration bands for executives in the Victorian public sector, and the values of the allowances provided to Mayors, Deputy Mayors and Councillors in local government.

Pursuant to section 17 of the VIRTIPS Act, on 16 September 2019 the Tribunal issued its *Members of Parliament (Victoria) Determination 01/2019*. This comprehensive Determination set the values of the following salaries and allowances for MPs — the basic salary, additional salaries, work-related parliamentary allowances and Electorate Office and Communications Budget.

Section 18 of the VIRTIPS Act requires the Tribunal to make a Determination providing for an annual adjustment to the values set in the current Determination under section 17 of the VIRTIPS Act. However, the Tribunal must not make such a Determination if a Determination has been made under section 17 in the preceding period of 9 months.

The Tribunal is required to include in a Determination, a Statement of Reasons for the making of the Determination. This Statement of Reasons relates to the Tribunal's Determination dealing with the first annual adjustment to the values of the salaries and allowances provided to MPs.

The structure of the Statement of Reasons reflects the requirements of the VIRTIPS Act. Chapter 1 sets out the context to the Determination. Chapter 2 details the economic considerations relevant to the Determination. Chapter 3 details the Tribunal's considerations in determining that there should be no change to the values of the salaries and allowances provided to MPs at this time.

1 Context



The *Victorian Independent Remuneration Tribunal and Improving Parliamentary Standards Act 2019* (Vic) (VIRTIPS Act) requires the Tribunal to inquire into and make Determinations in relation to:

- salaries and allowances for Members of the Parliament of Victoria (MPs)
- remuneration bands for executives employed in public service bodies
- remuneration bands for executives employed in prescribed public entities
- allowances provided to Mayors, Deputy Mayors and Councillors in local government.

In performing its functions and the exercise of its powers, the Tribunal must act independently and impartially and is not subject to the control or direction of any person, including the Minister (s5).

1.1 Scope of the Determination

This Determination made under section 18 of the VIRTIPS Act is part of the Tribunal's role in determining salaries and allowances for MPs.

The VIRTIPS Act requires the Tribunal to make a new Determination of MP salaries and allowances within six months after the first sitting day of each subsequent Parliament, that is, every four years (s17). The Tribunal is required to set the value of the:

- basic salary for MPs
- additional salaries paid to those holding specified parliamentary offices
- work-related parliamentary allowances for MPs
- the Electorate Office and Communications Budget (EO&C Budget) provided to MPs to maintain an electorate office and communicate with their electorate in relation to the performance of their public duties.

Section 18 of the VIRTIPS Act requires the Tribunal to provide for an annual adjustment to the values set in the current Determination under section 17.

1.2 Legislative requirements

Before making a Determination, the Tribunal must:

- publish notice of its intention to make a Determination (s24(1)(a))
- include details about the proposed Determination in the public notice (s24(1)(b))
- give any affected person or class of persons a reasonable opportunity to make a submission in relation to the proposed Determination (s24(1)(c)).

In making a Determination, the Tribunal must consider:

- any statement or policy issued by the Government of Victoria which is in force with respect to its Wages Policy (or equivalent) and the remuneration and allowances of any specified occupational group (s24(2)(a))
- the financial position and fiscal strategy of the State of Victoria (s24(2)(b))
- current and projected economic conditions and trends (s24(2)(c))
- submissions received in relation to the proposed Determination (s24(2)(d)).

1.3 Consultation

In accordance with section 24(1) of the VIRTIPS Act, on 5 May 2020, and before making the Determination, the Tribunal:

- published its notice of intention to make a Determination on its website, including details about the proposed Determination
- gave any affected person or class of affected persons a reasonable opportunity to make a submission regarding the proposed Determination.

As part of its notice of intention, the Tribunal published a summary of the matters it was required to consider in the making of the Determination on its website. The Tribunal also requested that the Department of Parliamentary Services provide the Tribunal's notice of intention directly to MPs.

The Tribunal received one confidential written submission that proposed that any increase to MP salaries should not exceed the Victorian Government's Wages Policy.

1.4 Members of Parliament (Victoria) Determination 01/2019

On 16 September 2019, the Tribunal issued the *Members of Parliament (Victoria) Determination 01/2019* (2019 Determination). The 2019 Determination represented the first independent comprehensive review of MPs' remuneration in Victoria's history.

The 2019 Determination reviewed the roles and responsibilities of MPs, and the existing salaries, work-related parliamentary allowances and other funding and superannuation arrangements provided to MPs (s17). It set the values of the:

- basic salary
- additional salaries for specified parliamentary office holders
- electorate allowance
- any expense allowance
- motor vehicle allowance
- travel allowance
- parliamentary accommodation sitting allowance
- commercial transport allowance
- international travel allowance
- EO&C Budget.

The 2019 Determination also set the value of the 'basic salary portion' for the financial year ending 30 June 2020 — that is, the basic salary for the purpose of section 10(1) of the *Parliamentary Salaries, Allowances and Superannuation Act 1968* (Vic) (PSAS Act) — as required by the VIRTIPS Act (s17(5)(b)). The Tribunal does not have the power to make any further adjustments to the basic salary portion, rather it will be adjusted by the formula set out in section 10(1) of the PSAS Act.

The 2019 Determination made key reforms to the salaries and allowances provided to MPs in Victoria:

- consolidation of the base expense allowance of 8 per cent into the basic salary, and reducing any expense allowance provided to a specified parliamentary office holder by the same amount

- breaking the percentage link between the basic salary and additional salaries provided to specified parliamentary office holders
- removing the ability for MPs to claim international and interstate travel from the EO&C Budget, and replacing this provision with a new ‘international travel allowance’ capped at \$10,000 per financial year.

1.5 Review of Members of Parliament Guidelines

In June 2020, the Tribunal commenced a comprehensive review of its *Members of Parliament (Victoria) Guidelines 02/2019*, which govern the eligibility and use of some work-related parliamentary allowances and the EO&C Budget. The review is intended to be holistic to ensure the Guidelines are modernised and designed to support the broader compliance framework within which they operate.

2 Economic factors



In accordance with the *Victorian Independent Remuneration Tribunal and Improving Parliamentary Standards Act 2019* (Vic) (VIRTIPS Act), in relation to economic factors in making a Determination, the Tribunal is required to consider:

- current and projected economic conditions and trends (s24(2)(c))
- the financial position and fiscal strategy of the State of Victoria (s24(2)(b))
- any statement or policy issued by the Government of Victoria which is in force with respect to its Wages Policy (or equivalent) and the remuneration and allowances of any specified occupational group (s24(2)(a)).

The Australian economy is going through a significant downturn as a result of the response to COVID-19 with a severe detrimental effect on the labour market. There remains considerable uncertainty about the duration and nature of the path to economic recovery. The Tribunal has considered and relied upon the trend and forecast data available to it at the time of publication of this Statement of Reasons.

2.1 Current and projected economic conditions and trends

Australian and Victorian economic conditions have been significantly impacted by the global outbreak of COVID-19. Victorian economic activity has also been affected by bushfires experienced in early 2020.

Australian economic conditions

Australian Bureau of Statistics (ABS) data show that Australia's Gross Domestic Product (GDP) contracted by 0.3 per cent in the March quarter 2020.¹ The annual growth rate of 1.4 per cent to March 2020 was the lowest recorded since the Global Financial Crisis in late 2009.²

¹ ABS, *Australian National Accounts: National Income, Expenditure and Product*, cat. no. 5206.0, March 2020

² ABS, *Australian National Accounts: National Income, Expenditure and Product*, cat. no. 5206.0



The Reserve Bank of Australia's (RBA) *Statement on Monetary Policy – May 2020* noted that combating the spread of COVID-19 has required severe restrictions on economic activity in many countries. The RBA's statement also noted that Gross Domestic Product is expected to fall by around 10 per cent from peak to trough as a result of the COVID-19 pandemic. In the RBA's baseline scenario, GDP should be stronger over 2021 as business and dwelling investment gradually recover.³

In early April 2020, the national unemployment rate was forecast to peak at around 10 per cent in June 2020.⁴ Updated analysis from the Commonwealth Department of Treasury suggests a revised peak in the unemployment rate of 8 per cent around September 2020, due in part to better than expected health outcomes.⁵

Headline inflation is expected to turn negative in the June quarter 2020, and to remain below 2 per cent for some time.⁶ The RBA has noted that wages growth is likely to slow due to the impact of COVID-19:⁷

As has been the case during other downturns, it is likely that businesses will make most of the adjustment to their labour costs through reducing both hours worked and the number of employees. However, it is also expected that many businesses and employees will agree to wage freezes and, to a lesser extent, to some cuts to hourly wages.

In June 2020, the RBA Governor also noted that while the global economy is experiencing a severe downturn, conditions in global financial markets are stabilising, and that pending the continued decline in rates of infection and corresponding easing of restrictions, recovery in the global market will begin.⁸

Victorian economic conditions

Prior to the disruption to economic activity caused by bushfires and the outbreak of COVID-19 in Victoria, the *Victorian Budget 19/20: 2019/20 Budget Update* (Budget Update) released in December 2019, reported that the Victorian economy

³ RBA, *Statement on Monetary Policy – May 2020*, (RBA: Sydney, New South Wales, May 2020).

⁴ RBA, *Statement on Monetary Policy – May 2020*.

⁵ Commonwealth of Australia, *Australian Government's response to the COVID-19 pandemic*, Senate Select Committee on COVID-19, (Dr Steven Kennedy, Secretary of the Commonwealth Department of Treasury), 9 June 2020, p12.

⁶ RBA, *Statement on Monetary Policy – May 2020*.

⁷ RBA, *Statement on Monetary Policy – May 2020*.

⁸ Philip Lowe, RBA, 'Monetary Policy Decision', media release, June 2020.

started the year on a solid footing, with strong employment growth and high levels of infrastructure investment.⁹

The impact of bushfires on Victorian economic activity is estimated to have subtracted around 0.1 per cent (equivalent to around \$500 million of economic activity) from Victoria’s Gross State Product (GSP) in 2019-20.¹⁰

In April 2020, the Victorian Department of Treasury and Finance (DTF) released modelling estimating the potential effects of COVID-19 on economic activity and employment based on Stage 3 restrictions being in place for six months (table 2.1).¹¹ The changes in these measures provide an indication of the significant change in outlook for the Victorian economy and labour market.

Table 2.1: comparison of DTF economic forecasts for 2019-20, as reported in December 2019 and April 2020

Measure	Forecast in the 2019/20 Budget Update released December 2019	Updated forecast in DTF modelling released April 2020
Real (inflation adjusted) Gross State Product	+2.50% ^(a)	-6.75% ^{(b) (c)}
Participation rate	66.4%	64.5%
Unemployment rate	5.00%	11.00%

Note: (a) ‘+’ indicates growth/increase; (b) ‘-’ indicates decrease/reduction; (c) estimate is for the calendar year 2020. Sources: DTF, *Victorian Budget 19/20: 2019/20 Budget Update*; DTF, *Coronavirus Economic Outlook – fact sheet*.

The DTF modelling also estimates that in the wake of the COVID-19 outbreak, Victoria’s GSP could be around 14 per cent lower in the June and September quarters relative to forecasts underlying the *Victorian Budget 19/20*.¹² The DTF modelling suggests that the magnitude of the economic impact of COVID-19 makes it likely that Victoria will record negative economic growth in 2019-20 and 2020-21.¹³

The employment forecast for Victoria has also been significantly revised down following the COVID-19 outbreak, with early effects already evident in data for April and May 2020. Total employment in Victoria fell by 70,752 people in May,

⁹ DTF, *Victorian Budget 19/20: 2019/20 Budget Update* (State Government of Victoria: Melbourne, Victoria, December 2019).

¹⁰ IRV, *Victorian Government Supplementary Submission – Annual Wage Review 2019-20* (State Government of Victoria: Melbourne, Victoria, May 2019).

¹¹ DTF, *Victorian Budget 19/20: 2019/20 Budget Update*; DTF, *Coronavirus Economic Outlook – fact sheet* (State Government of Victoria: Melbourne, Victoria, April 2020).

¹² DTF, *Coronavirus Economic Outlook – fact sheet*.

¹³ DTF, *Coronavirus Economic Outlook – fact sheet*.

following the 127,937 people who lost a job in April.¹⁴ The unemployment rate in Victoria increased to 6.9 per cent in May.¹⁵ The underutilisation rate in Victoria rose to 22.1 per cent, while hours worked fell by 1.9 per cent in May, following a 10.7 per cent reduction in hours worked in the month of April.¹⁶ Employment growth is expected to remain weak in the near term.¹⁷

Economic indices

Caution needs to be exercised in relation to the movements in prices and wages over the 12 months to 31 March 2020. The data largely pre-date the impact of COVID-19, in particular the need for restrictions on business activity and flow-on job losses.

The Melbourne All Groups Consumer Price Index (CPI) increased by 0.8 per cent for the March 2020 quarter.¹⁸ For the 12 months to 31 March 2020, the CPI for Melbourne increased by 2.7 per cent.¹⁹

The Wage Price Index (WPI) for Victoria grew by 2.5 per cent in the 12 months to 31 March 2020.²⁰ The WPI for the public sector grew by 3.3 per cent, compared to 2.4 per cent in the private sector.²¹

2.2 Financial position and fiscal strategy of the State of Victoria

The financial position and fiscal strategy of the State of Victoria is set out in the Budget Update, the *2019-20 Quarterly Financial Report No.03* (Quarterly Report)²² for the nine-month period ending 31 March 2020, and the outlook for the State's credit rating.²³

The Budget Update reported that the operating surplus was expected to be \$618 million in 2019-20, and to average \$3.3 billion per year over the forward

¹⁴ ABS, *Labour Force, Australia*, cat. no. 6202.0, May 2020.

¹⁵ ABS, *Labour Force, Australia*, cat. no. 6202.0, May 2020.

¹⁶ ABS, *Labour Force, Australia*, cat. no. 6202.0, May 2020.

¹⁷ IRV, *Victorian Government Supplementary Submission – Annual Wage Review 2019-20*.

¹⁸ ABS, *Consumer Price Index, Australia*, cat. no. 6401.0, March 2020.

¹⁹ ABS, *Consumer Price Index, Australia*, cat. no. 6401.0, March 2020.

²⁰ ABS, *Wage Price Index, Australia*, cat. no. 6345.0, March 2020.

²¹ ABS, *Wage Price Index, Australia*, cat. no. 6345.0, March 2020.

²² DTF, *Victorian Budget 19/20: Quarterly Financial Report No. 3* (State Government of Victoria: Melbourne Victoria, 31 March 2020).

²³ TCV, 'Credit Ratings', TCV Bonds, accessed 15 June 2020.

estimates.²⁴ Revenue growth was forecast to average 4.4 per cent over the Budget and forward estimates, exceeding expense growth of 3.3 per cent.²⁵ Net debt was forecast to be 8.5 per cent of GSP at June 2020 and to increase to 10.5 per cent by June 2023.²⁶

Published in May 2020, the Quarterly Report takes into account the effect of the bushfires and the early impacts of COVID-19 on the State's financial position. The Quarterly Report states that at 31 March 2020:²⁷

- Victoria had a deficit of \$773 million, a decline from the projected \$618 million surplus reported in the Budget Update in December 2019
- net debt increased to \$38.9 billion, up from \$29.3 billion at 1 July 2019.

The Victorian Government passed legislation in response to COVID-19 allowing it to appropriate up to \$24 billion in emergency funding over 2019-20 and 2020-21 to support community and businesses and to rebuild the economy following the easing of COVID-19 restrictions. The Government has announced it will invest \$2.7 billion in 'shovel ready' projects such as school upgrades, water infrastructure improvements and road resurfacing works.

This funding is in addition to the \$3.5 billion the Victorian Government previously committed, including a \$1.7 billion economic survival and jobs package offering payroll tax refunds for eligible businesses, business support grants and help to workers who have lost their jobs to find new opportunities.²⁸

The Government has delayed the State Budget for 2020-21 until October 2020, which means that a more comprehensive view of the impact of COVID-19 on the Victorian economy and the Budget over the forward estimates will not be known for some time.

In early April 2020, Standard and Poor's (S&P) revised its credit-rating outlook for Victoria to 'negative' (implying that Victoria's AAA credit rating from S&P could be revised down in the future) because of a rise in public debt due to Victoria's response to COVID-19.²⁹

²⁴ DTF, *Victorian Budget 19/20: 2019/20 Budget Update*.

²⁵ DTF, *Victorian Budget 19/20: 2019/20 Budget Update*.

²⁶ DTF, *Victorian Budget 19/20: 2019/20 Budget Update*.

²⁷ DTF, *Victorian Budget 19/20: Quarterly Financial Report No. 3*.

²⁸ IRV, *Victorian Government Supplementary Submission – Annual Wage Review 2019-20*.

²⁹ TCV, 'Credit Ratings', TCV Bonds, accessed 15 June 2020; John Kehoe and Jonathan Shapiro, 'Australia's AAA sovereign credit rating revised to 'negative'', *The Financial Review*, 8 April, 2020.

2.3 Victorian Government's Wages Policy

Box 2.1 re-produces the *Victorian Government Wages Policy and Enterprise Bargaining Framework* (Wages Policy) effective from April 2019, which applies to departments and agencies in the Victorian public sector.

Box 2.1: Victorian Government Wages Policy and Enterprise Bargaining Framework

The Victorian Government Wages Policy and Enterprise Bargaining Framework has three pillars:

- Pillar 1: Wages — increases in wages and conditions will be capped at a rate of growth of 2 per cent per annum over the life of the agreement. In practice this means employee wages and conditions will be allowed to grow at this rate.
- Pillar 2: Best Practice Employment Commitment — all public sector agencies will be required to make a Best Practice Employment Commitment which will outline measures to operationalise elements of the Government's Public Sector Priorities that reflect good practice within Government and can be implemented operationally or without significant costs.
- Pillar 3: Additional strategic changes — additional changes to allowances and other conditions (not general wages) will only be allowed if the Government agrees that the changes will address key operational or strategic priorities for the agency, and/or one or more of the Public Sector Priorities.

A 'Secondary Pathway' is also available for public sector agencies whose current enterprise agreement reaches its nominal expiry date on or before 30 June 2020 which permits one annual wage and allowance increase capped at 2.5 per cent (instead of at 2 per cent).

Source: Wages Policy.

3 Tribunal's considerations



The Tribunal now turns to consider the matters it must determine, being to provide for an annual adjustment to the values of the:

- basic salary for Members of the Parliament of Victoria (MPs)
- additional salaries for specified parliamentary office holders
- any expense allowance
- electorate allowance
- motor vehicle allowance
- travel allowance
- parliamentary accommodation sitting allowance
- commercial transport allowance
- international travel allowance
- Electorate Office and Communications Budget (EO&C Budget).

3.1 Values of salaries and allowances

The existing basic salary for MPs is \$182,413 per annum.

Taking into consideration the Victorian Government's Wages Policy, the submission received by the Tribunal and the challenging economic, financial and fiscal circumstances resulting from the COVID-19 pandemic discussed in chapter 2, the Tribunal has determined that the most appropriate course is to leave the value of the basic salary for MPs unchanged at this time. Those circumstances weigh against the factors supporting an increase. For the financial year ending 30 June 2021, the Tribunal has therefore determined the basic salary for MPs in the Parliament of Victoria will remain at \$182,413 per annum.

Similarly, the Tribunal has determined not to make any further changes to the values of other salaries and allowances set in the *Members of Parliament (Victoria) Determination 01/2019*.



The Tribunal's review of the *Members of Parliament (Victoria) Guidelines 02/2019*, will provide the Tribunal with a further opportunity to consider the use of the EO&C Budget and work-related parliamentary allowances. The 2021 annual adjustment Determination may reflect outcomes arising from that review.

3.2 Conclusion

This Statement of Reasons pertains to the Determination for the annual adjustment to the values of the salaries and allowances provided to MPs in the Parliament of Victoria. In this Statement of Reasons, the Tribunal has considered:

- any statement or policy issued by the Government of Victoria which is in force with respect to its Wages Policy (or equivalent) and the remuneration and allowances of any specified occupational group (s24(2)(a))
- the financial position and fiscal strategy of the State of Victoria (s24(2)(b))
- current and projected economic conditions and trends (s24(2)(c))
- submissions received in relation to the proposed Determination (s24(2)(d)).

The Tribunal has determined to make no adjustment to the values of the salaries and allowances set in the *Members of Parliament (Victoria) Determination 01/2019*. The Determination has balanced the current and projected negative impacts on economic conditions and Victoria's financial position and fiscal strategy from the outbreak of COVID-19 against factors supporting an increase in the values.

The Tribunal may adjust the values it has set for those salaries and allowances annually. The 2021 annual adjustment Determination may also reflect outcomes arising from the Tribunal's review of the *Members of Parliament (Victoria) Guidelines 02/2019*.

The Tribunal has also determined to clarify that clause 7.1 of the *Members of Parliament (Victoria) Determination 01/2019* set the value of the basic salary portion for certain superannuation purposes for the financial year ending 30 June 2020. This is because from 1 July 2020 the value of that basic salary portion is automatically indexed under section 10(1) of the *Parliamentary Salaries, Allowances and Superannuation Act 1968* (Vic).

This Determination will take effect on 1 July 2020.