



BACKGROUND NOTE 17 August 2012

# The base salary for senators and members

Leanne Manthorpe; updated by Cathy Madden and Deirdre McKeown Politics and Public Administration Section, and Guy Woods, Statistics and Mapping Section

# **Contents**

Introduction	1
Constitutional and legislative basis for payment	
Remuneration Tribunal	1
Parliamentary base salary—a brief history	2
1901–1973	2
Remuneration Tribunal	3
Reference Salary—under the PEO Classification	4
Recent reforms 2011-present	5
Percentage increases in the base salary from 1996	6
Increases in the parliamentary base salary compared with average wages from 1968	6

#### Introduction

Senators and members receive an annual allowance by way of basic salary—\$190 550 from 1 July 2012. This background note explains the legislative basis, fixing and linking mechanisms for the allowance. Adjustments to the base salary since 1968 are provided in Table 1 and Graph 1.

Information on the base salary of state and territory members of parliament is available in a companion Background Note, <u>Parliamentary remuneration and entitlements</u>.

# Constitutional and legislative basis for payment

Section 48 of the *Constitution* provides for the payment of Members of Parliament:

Until the Parliament otherwise provides, each senator and each member of the House of Representatives shall receive an allowance of four hundred pounds a year, to be reckoned from the day on which he takes his seat.

Since 1901, the Parliament has enacted legislation to define the parliamentary base salary for the purposes of Section 48 of the *Constitution*.

The *Remuneration and Allowances Act 1990* defines a parliamentary allowance which is consistent with the arrangements whereby the Remuneration Tribunal determines the remuneration of parliamentarians.<sup>2</sup> Section 8 provides that salaries and allowances are to be paid out of the Consolidated Revenue Fund.

Section 8A of the *Remuneration and Allowances Act 1990* allows the Governor-General to make regulations necessary to give effect to the Act. <u>Remuneration and Allowances Regulations 2005</u> are now in force.

#### **Remuneration Tribunal**

The <u>Remuneration Tribunal</u> is an independent statutory body established by the <u>Remuneration</u> <u>Tribunal Act 1973</u>. This legislation allows the Tribunal to inquire into and determine allowances paid out of consolidated revenue to senators and members. The Tribunal's <u>Report 1999/01</u> states that 'the Government can choose to accept or reject the Tribunal's advice on these matters ...'. In 1974

The choice of phrase to describe the allowance payable under Section 48 of the Constitution is a difficult one. 'Basic salary' is commonly used in an informal sense and serves to distinguish it from salaries paid to ministers and office-holders. The authors have chosen to use 'parliamentary base salary'. Federal parliamentarians are also entitled to other benefits and allowances described in legislation. See C Madden and D McKeown, Parliamentary remuneration and entitlements, Background Note, Parliamentary Library, 2012.

See Remuneration Tribunal Act 1973 s3 and s7(1), viewed 9 July 2012, http://www.comlaw.gov.au/Series/C2004A00043

<sup>3.</sup> Remuneration Tribunal Act 1973, subsection 7(1).

<sup>4.</sup> Remuneration Tribunal, <u>Report on Senators and Members of Parliament, Ministers and Holders of Parliamentary</u>
<u>Office—salaries and allowances for expenses of office—December 1999, Report 1999/01.</u>

Parliament disapproved the Tribunal's determination increasing the base salary to \$20 000 per annum. In the decades since then Parliament has also modified determinations, postponed increases and enacted reduced allowances previously determined by the Tribunal as an example of wage restraint.<sup>5</sup>

The commencement of the <u>Remuneration and Other Legislation Amendment Act 2011</u> restores the power of the Remuneration Tribunal to determine parliamentary remuneration. The legislation also removes the power of the Parliament to disallow parliamentary remuneration determinations made by the Tribunal.

#### The base salary for senators and members is \$190 550 per annum from 1 July 2012

The applicable Principal Remuneration Tribunal Determination is Determination 2012/02, Members of Parliament—base salary and related matters. The applicable regulations are Remuneration and Allowances Regulations 2005, SLI 2005 No. 308

# Parliamentary base salary—a brief history

#### 1901-1973

At the Constitutional Convention at Sydney in 1891, Sir Samuel Griffith said:

One of the first things to be done by the parliament of the commonwealth in its first session would be to settle the salaries of ministers, and a great number of other matters of that kind. We have, therefore, given them power to deal with this subject. We did not think it necessary to make this in any sense a payment of members bill. We lay down, however, the principle that they, are to receive an annual allowance for their services, and we thought that it should start in the first instance at £500.<sup>6</sup>

At the Adelaide Convention, however, the draft constitution bill debated specified an amount of £400 and this was the annual allowance subsequently enacted in the Constitution.<sup>7</sup>

In 1907 parliamentarians made themselves liable to the payment of State income taxes. <sup>8</sup> Tax concessions for electorate expenses were allowed from 1925. <sup>9</sup>

Between 1901 and the establishment of the Remuneration Tribunal in 1973, Parliament adjusted allowances following decisions of executive government or as the result of recommendations from

<sup>5.</sup> Remuneration Tribunal 1982 Review, pp. 18–21 and Report 1999/01, op. cit., pp. 1–5.

<sup>6.</sup> S Griffith, Official Report of the National Australasian Convention Debates, Sydney, 2 April 1891, p. 654.

<sup>7.</sup> Official Report of the National Australasian Convention Debates, First Session, Adelaide, 22nd March to 23rd April 1897, pp. 1032–34.

<sup>8.</sup> Commonwealth Salaries Act 1907.

<sup>9.</sup> E Page, House of Representatives, *Debates*, 4 June 1947, p. 3355. An Electorate Expense Allowance, not subject to income taxation, was paid from 1952.

committees of inquiry.<sup>10</sup> Justice Kerr in 1971 noted that during this time there was 'no fixed pattern of approach' to the timing and method of reviewing base salaries—a process that invariably attracted criticism.<sup>11</sup>

In 1971 the Kerr Inquiry suggested the establishment of a 'Salaries Tribunal ... authorised by legislation to review salaries and report at regular stated intervals.'

#### Kerr also wrote:

Nothing ... should prevent the Parliament or the Government from rejecting recommendations or from taking action not in accordance with what is recommended. <sup>12</sup>

#### Remuneration Tribunal

From its establishment in 1973, the Remuneration Tribunal, using a range of evidence and indicators, determined the base salary with reference to second division officers of the Commonwealth Public Service. Adjustments were then made by applying National Wage Case decisions. In 1979 the Government legislated to remove the Tribunal's recent determination that these adjustments be automatic. 4

In 1987 the Tribunal convened a conference for interested parties to examine parliamentarians' salaries. <sup>15</sup> An independent review was consequently conducted for the Tribunal in 1988. The resulting report recommended increases based on work value and community pay standards. The review strongly recommended that there be no linkage between the base salary and APS salaries. <sup>16</sup> Increases determined by the Tribunal at that time were deferred.

With the *Remuneration and Allowances Act 1990*, the Government removed the Tribunal's power to determine base salaries and allowed a phased increase to the allowance over three years. The legislation also provided a link with SES Band 1 salaries in the APS—in contrast to the recommendation in the 1988 review. Adjustments to the base salary were made by means of national wage case decisions and, from 1992, agreements between the Government and public sector unions.

<sup>10.</sup> Including—Report of the Committee of Enquiry into the Salaries and Allowances of Members of the National Parliament (Nicholas Report), 1952; Report of the Committee of Enquiry into the Salaries and Allowances of Members of the Commonwealth Parliament (Richardson Report), 1955; Report of the Committee of Enquiry into the Salaries and Allowances of Members of the Commonwealth Parliament (Richardson Report), 1959; Salaries and Allowances of Members of the Parliament of the Commonwealth: A Report of Inquiry by Mr Justice Kerr, (Kerr Report), 1971.

<sup>11.</sup> Mr Justice Kerr, ibid., p. 12.

<sup>12.</sup> Ibid., p. 16.

<sup>13.</sup> With the enactment of the <u>Public Service Reform Act 1984</u>, the Second Division of the Commonwealth Public Service was replaced by the SES. See Public Service Reform Bill 1984, *Bills* Digest, no. 72, 1984, p. 2.

<sup>14.</sup> Remuneration and Allowances Act 1979.

<sup>15.</sup> Remuneration Tribunal, 1987 Review, pp. 5–12.

<sup>16.</sup> Cullen Egan Dell, Report on the pay and allowances for members of parliament: prepared for the Remuneration *Tribunal*, 1988, pp. 18–19.

Legislation enacted in 1994 ensured that the base salary was equivalent to the minimum APS SES Band 2 salary level. The then *Workplace Relations Act 1996* enabled SES salaries to be set through individual Australian Workplace Agreements (AWAs), thereby removing the standard against which the base salary was determined. With the expiry of the final APS Enterprise Agreement at the end of 1996, the mechanism by which adjustments were made to the base salary ceased.

Legislative changes to the APS in 1999, among other matters, amended the *Remuneration and Allowances Act 1990* and the *Remuneration Tribunal Act 1973*.

### Reference Salary—under the PEO Classification

<u>Report 1999/01</u> by the Tribunal recommended that the base salary be linked to a reference salary under the Principal Executive Office (PEO) Classification Structure. <sup>17</sup> The Government accepted this recommendation and made the <u>Remuneration and Allowances Regulations 2005</u> to create the link. The Regulations provide for the reference salary to be 100 per cent of the rate determined by the Remuneration Tribunal for Band A of the PEO Classification.

The Remuneration Tribunal's amending <u>Determination 2008/10</u> increased Reference Salary A in the PEO Classification by 4.3 per cent to \$132 530 from 1 July 2008. Consequently, for the purposes of the base salary in 2008/09, the Remuneration and Allowances Regulations reduce Reference Salary A by 4.3 per cent.

On 26 May 2008, the Rudd Government introduced the <u>Remuneration and Allowances Amendment</u> <u>Regulations 2008 (No. 1)</u> amending the <u>Remuneration and Allowances Regulations 2005</u> to freeze the base salary at \$127 060 per annum. Rather than 100 per cent of Reference Salary A, Regulation 5 described the percentage as:

# Regulation 5 Remuneration and allowances of Senators and Members of the House of Representatives

- (2) For the financial year commencing on 1 July 2008, and for each subsequent financial year:
- (a) the percentage is the percentage of the reference salary which, when applied to the reference salary, reduces the reference salary by the amount (in whole dollars) by which the reference salary was increased by the Remuneration Tribunal for the financial year commencing on 1 July 2008

For the purpose of calculating the base salary, Regulation 5 has the effect of reducing Reference Salary A in the PEO Classification by the percentage necessary to arrive at the rate payable at 30 June 2008, that is, \$127 060.

On 20 June 2011 the Remuneration Tribunal released <u>Determination 2011/11</u> Principal Executive Office (PEO) Classification Structure and Terms and Conditions which set Reference Salary A at \$146

<sup>17.</sup> The PEO classification structure provides a framework for the negotiation of the terms and conditions of PEO employment.

380. On the basis described above, that is Reference Salary A less \$5470, the parliamentary base salary increased to \$140 910 with effect from 1 July 2011.

Under the <u>Remuneration Tribunal Act 1973</u>, the Tribunal had wide scope to consider factors when reviewing the PEO Classification. The Tribunal indicated that these factors included: key economic indicators; other specific indicators such as the Wage Price Index; salary outcomes in the public (and to a lesser degree) private sector; the principles of wage determination and decisions of the Australian Industrial Relations Commission.<sup>18</sup>

#### **Recent reforms 2011-present**

In 2009 an Australian National Audit Office (ANAO) report, *Administration of parliamentarians'* entitlements by the Department of Finance and Deregulation, highlighted shortcomings in the management of MPs' entitlements. <sup>19</sup> In September 2009, in response to the ANAO report, the Government set up a committee to review parliamentary entitlements, chaired by former senior public servant, Barbara Belcher.

In 2011 the Government accepted the recommendation of the <u>Report of the committee for the review of parliamentary entitlements</u> to restore the power of the Remuneration Tribunal to determine parliamentary base salary. <sup>20</sup> The legislation, the Remuneration and other Legislation Amendment Bill 2011, also removed the power of the Parliament to disallow parliamentary remuneration determinations made by the Tribunal. The Bill passed both Houses on 23 June 2011 and received assent on 25 July 2011, commencing on 8 August 2011.

On 15 December 2011 the Remuneration Tribunal issued its initial report on the work value assessment of parliamentary remuneration. <sup>21</sup> The Tribunal also issued a Statement outlining its recommendations and next steps. <sup>22</sup> The main recommendations included:

on the basis of a work assessment of parliamentarians, that parliamentary base salary should be set at  $$185\,000$ 

<sup>18.</sup> Remuneration Tribunal, <u>Explanatory Memorandum: Determination 2004/15 – Principal Executive Office (PEO)</u>
<u>Classification Structure Terms and Conditions</u>. WCl is a product of the Australian Bureau of Statistics. The Tribunal's <u>Report 1999/01</u> highlights some of the factors given consideration by the Tribunal during earlier deliberations.

Australian National Audit Office, Administration of parliamentarians' entitlements by the Department of Finance and Deregulation, ANAO, 2009, viewed 26 June 2012, <a href="http://www.anao.gov.au/~/media/Uploads/Documents/2009%2010">http://www.anao.gov.au/~/media/Uploads/Documents/2009%2010</a> anao audit report 3 .pdf

<sup>20.</sup> Report of the Committee for the Review of Parliamentary Entitlements (the Belcher review), April 2010, p. 12, viewed 7 August 2012, <a href="http://www.finance.gov.au/publications/review-of-parliamentary-entitlements-committee-report/index.html">http://www.finance.gov.au/publications/review-of-parliamentary-entitlements-committee-report/index.html</a>

<sup>21.</sup> Remuneration Tribunal, Review of the Remuneration of Members of Parliament: Initial report, December 2011, viewed 2 March 2012, <a href="http://www.remtribunal.gov.au/statementsreports/MPs%20Report%2015.12.2011.pdf">http://www.remtribunal.gov.au/statementsreports/MPs%20Report%2015.12.2011.pdf</a>

<sup>22.</sup> Remuneration Tribunal, Reports, Members of Parliament, Secretaries of Departments, Specified Statutory Offices, Statement, viewed 2 March 2012, <a href="http://www.remtribunal.gov.au/statementsreports/3..%20Remuneration%20Tribunal%20Statement%2015.12.2011.pdf">http://www.remtribunal.gov.au/statementsreports/3..%20Remuneration%20Tribunal%20Statement%2015.12.2011.pdf</a>

On 13 March 2012 the Tribunal issued the first Determination setting the base salary for Members of Parliament.<sup>23</sup> The base salary was set at \$185 000, to take effect from 15 March 2012.

On 19 June 2012 the Tribunal issued Determination 2012/15: Members of Parliament – Base salary, entitlements and related matters which increased MPs' base salary by 3 per cent to \$190 550 from 1 July 2012.<sup>24</sup>

# Percentage increases in the base salary from 1996

Since 1996, the base salary has increased by the following (in actual dollars):

- 7 March 1996—1.6 per cent
- 17 October 1996—1.2 per cent
- 7 December 1999—4.45 per cent, the first stage of a 9.95 per cent two-stage increase
- 1 July 2000—5.5 per cent, the second stage of the 9.95 per cent increase
- 1 July 2000—2.2 per cent by virtue of an adjustment to the PEO Classification Structure
- 1 July 2001—3.9 per cent
- 1 July 2002—3.35 per cent
- 1 July 2003—4 per cent
- 1 July 2004—3.9 per cent
- 1 July 2005—4.1 per cent and
- 1 July 2006—7.01 per cent
- 1 July 2007—6.8 per cent
- 1 October 2009—3.1 per cent
- 1 August 2010—3.8 per cent
- 1 July 2011—3.6 per cent
- 15 March 2012—31.3 per cent
- 1 July 2012—3.0 per cent

# Increases in the parliamentary base salary compared with average wages from 1968

During the 1980s the MPs' base salary failed to keep up with inflation resulting in a decline in value in real terms. This was in contrast to the average which kept ahead of inflation and grew, in real terms, at an annual average rate of 0.3 per cent.

As a result the base salary, which had been three times the average wage in 1975, was only twice the average wage in 1991. During the 1990s MPs were given increases to their base salary which allowed some catch up with average wages. However, despite this by 2011 the base salary was still only 2.2 times the average wage.

<sup>23.</sup> Remuneration Tribunal, Determination 2012/02: Members of Parliament—Base salary and related matters, 12 March 2012, viewed 26 June 2012, <a href="http://www.remtribunal.gov.au/determinationsReports/byYear/2012/2012-02%20Determination.pdf">http://www.remtribunal.gov.au/determinationsReports/byYear/2012/2012-02%20Determination.pdf</a>

<sup>24.</sup> Remuneration Tribunal, Determination 2012/15: Members of Parliament—Base salary, entitlements and related matters, 19 June 2012, viewed 26 June 2012, <a href="http://www.remtribunal.gov.au/determinationsReports/byYear/2012/2012-15%20Determination.pdf">http://www.remtribunal.gov.au/determinationsReports/byYear/2012/2012-15%20Determination.pdf</a>

In March 2012 MPs received an increase to their base salary of 31.3 per cent. This resulted in a significant increase in the value of the salary relative to average wages. At 2.8 times the average annual wage it is at its highest level in 37 years.

Table 1: Base salary compared with average wages 1968–2012

		Base salary (\$ per annum)		Male total average wages (\$ per annum) (b)		
		Current	Real prices (2012 dollars)	Current	Real prices (2011 dollars)	Ratio allowance to average
Year	Date of effect	prices	(a)	prices	(a)	wages
1968	1.12.68	9 500	103 241	3 525	37 858	2.7
1973	1.4.73	14 500	123 387	5 256	44 203	2.8
1975	1.3.1975	20 000	131 679	6 987	45 465	2.9
1975	15.5.1975	20 720	131 616	7 597	47 694	2.7
1975	9.9.1975	20 000	126 154	7 659	47 751	2.6
1976	1.6.1976	21 250	120 550	8 739	48 997	2.4
1977	1.6.1977	24 369	121 777	9 656	47 693	2.5
1978	1.7.1978	25 692	116 747	10 637	47 771	2.4
1979	1.7.1979	26 720	111 067	11 606	47 682	2.3
1979	23.11.1979	27 575	111 287	12 091	48 230	2.3
1980	1.7.1980	28 816	108 753	13 139	49 011	2.2
1980	1.8.1980	30 026	113 320	13 139	49 011	2.3
1981	1.7.1981	36 000	124 653	14 771	50 551	2.4
1981	1.7.1981	33 013	114 310	14 771	50 551	2.2
1982	1.7.1982	36 000	110 826	17 201	52 337	2.1
1982	1 10 1982	38 500	115 181	17 602	52 048	2.2
1983	6.10.1983	40 156	110 598	18 875	51 379	2.1
1984	1.5.1984	41 802	115 307	20 011	54 557	2.1
1985	1.7.1985	42 889	108 516	21 018	52 559	2.0
1986	1.7.1986	45 543	105 876	22 796	52 377	2.0
1986	10.3.1987	46 065	102 090	23 176	50 766	2.0
1987	1.7.1987	47 815	102 688	23 828	50 578	2.0
1988	1.7.1988	49 180	98 360	25 350	50 111	1.9
1989	1.1.1989	55 000	106 803	27 483	52 747	2.0
1990	16.11.1989	55 000	100 020	28 156	50 606	2.0
1990	1.7.1990	58 300	101 813	29 339	50 641	2.0
1991	1.1.1991	61 798	105 372	30 533	51 456	2.0
1991	1.7.1991	64 768	109 607	30 001	50 181	2.2
1991	15.8.1991	66 387	112 347	30 001	50 181	2.2
1992	17.12.1992	67 715	113 214	31 258	51 652	2.2
1993	11.3.1993	68 663	113 745	31 868	52 177	2.2
1994	1.1.1994	68 663	112 199	32 619	52 681	2.1

		Base salary (\$ per annum)		Male total average wages (\$ per annum) (b)		
Year	Date of effect	Current prices	Real prices (2012 dollars) (a)	Current prices	Real prices (2011 dollars) (a)	Ratio allowance to average wages
1994	10.3.1994	69 693	113 882	32 619	52 681	2.1
1994	15.12.1994	74 460	119 083	33 620	53 142	2.2
1995	12.1.1995	75 949	119 452	33 990	52 837	2.2
1995	6.4.1995	77 438	120 222	34 115	52 347	2.3
1995	13.7.1995	78 987	121 167	34 240	51 914	2.3
1996	7.3.1996	80 251	121 658	34 949	52 365	2.3
1996	17.10.1996	81 856	122 750	35 507	52 626	2.3
1999	7.12.1999	85 500	124 288	38 657	55 540	2.2
2000	1.7.2000	92 000	126 790	40 085	54 600	2.3
2001	1.7.2001	95 600	128 511	41 681	55 378	2.3
2002	1.7.2002	98 800	128 690	43 386	55 853	2.3
2003	1.7.2003	102 760	130 457	45 753	57 408	2.2
2004	1.7.2004	106 770	132 471	47 041	57 685	2.3
2005	1.7.2005	111 150	133 855	49 950	59 453	2.2
2006	1.7.2006	118 950	137 820	51 916	59 451	2.3
2007	1.7.2007	127 060	144 525	54 778	61 582	2.3
2008	1.7.2008	127 060	137 667	56 880	60 911	2.2
2009	1.10.2009	131 040	139 467	60 623	63 771	2.2
2010	1.8.2010	136 040	141 613	61 702	63 483	2.2
2011	1.7.2011	140 910	142 570	64 471	64 471	2.2
2012	15.3.2012	185 000	185 928	66 995	66 547	2.8
2012	1.7.2012	190 550	190 550			
Annual average percentage change						
1968 to	2012	1.1	1.0	1.1	1.0	
1970 to	1980	11.7	0.5	14.1	2.6	
1980 to 1990		6.7	-0.8	7.9	0.3	
1990 to 2000		5.3	2.4	3.6	0.8	
2000 to 2010		4.0	1.1	4.4	1.5	
2011 to	2012 (c)	35.2	33.7	3.9	3.2	

<sup>(</sup>a) adjusted for inflation with the Consumer Price Index (CPI) to June 2012 prices

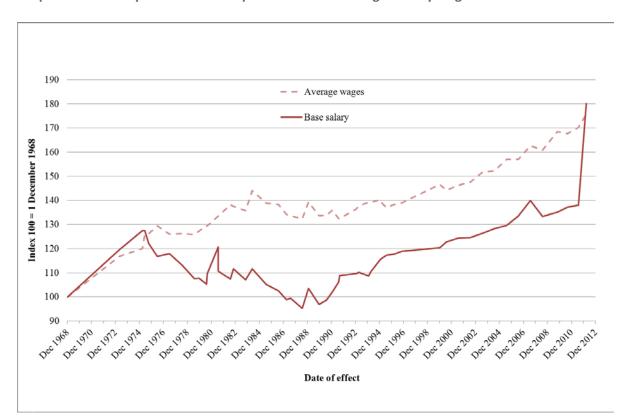
#### Sources:

Data on MP's allowance from Commonwealth Acts and Remuneration Tribunal Reports and Determinations. Average wages and deflators from ABS, *Consumer price index*, *Australia*, Jun 2012, cat. no. 6401.0. *Average weekly earnings*, *Australia*, Feb 2012, cat. no. 6302.0.

Real values calculated by the Parliamentary Library

<sup>(</sup>b) average weekly wages annualised

<sup>(</sup>c) wages growth to March 2012 and MPs' base salary to 1 July 2012



Graph 1: Base salary for members of parliament and average weekly wages index—real terms

Table 1, Graph 1 and commentary on the comparison of MPs' base salary and real wages by Guy Woods, Statistics and Mapping Section.

#### © Commonwealth of Australia



#### **Creative Commons**

With the exception of the Commonwealth Coat of Arms, and to the extent that copyright subsists in a third party, this publication, its logo and front page design are licensed under a <a href="Creative Commons Attribution-NonCommercial-NoDerivs">Creative Commons Attribution-NonCommercial-NoDerivs</a> 3.0 Australia licence.

In essence, you are free to copy and communicate this work in its current form for all non-commercial purposes, as long as you attribute the work to the author and abide by the other licence terms. The work cannot be adapted or modified in any way. Content from this publication should be attributed in the following way: Author(s), Title of publication, Series Name and No, Publisher, Date.

To the extent that copyright subsists in third party quotes it remains with the original owner and permission may be required to reuse the material.

Inquiries regarding the licence and any use of the publication are welcome to webmanager@aph.gov.au.

This work has been prepared to support the work of the Australian Parliament using information available at the time of production. The views expressed do not reflect an official position of the Parliamentary Library, nor do they constitute professional legal opinion.

Feedback is welcome and may be provided to: <a href="web.library@aph.gov.au">web.library@aph.gov.au</a>. Any concerns or complaints should be directed to the Parliamentary Librarian. Parliamentary Library staff are available to discuss the contents of publications with Senators and Members and their staff. To access this service, clients may contact the author or the Library's Central Entry Point for referral.