The Treasury

Budget 2017 Information Release

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[38]	to enable the Crown to negotiate without disadvantage or prejudice	9(2)(j)
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[40]	Not in scope	

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.

Reference: T2016/2021 SH-1-6-3

Date: 19 October 2016

To: Minister of Finance (Hon Bill English)
Associate Minister of Finance (Hon Steven Joyce)
Associate Minister of Finance (Hon Paula Bennett)

Deadline: Time of meeting yet to be confirmed.

Aide Memoire: Terranova: costings and negotiations

We understand that Hon Coleman is seeking a meeting with the PM and Investment Ministers to discuss the revised Terranova costings, ahead of a formal discussion at Social Policy Committee (SOC) on 2 November.

Background and state of play

At the beginning of September, the Ministry of Health proposed a timetable for developing revised costings, which would have involved them consulting with Central Agencies and reporting to Joint Ministers in the week beginning 3 October, with Ministers approving negotiating parameters in the week beginning 10 October (T2016/1671 refers). This timetable was always unrealistic. Our advice at the time was that there was scope to push the timeline out in order to ensure costings are robust before resuming negotiations and making a counter offer. This remains our view.

The costings are not yet robust. Work is underway to develop a more rigorous costing model and appears to be heading in the right direction. We have had an initial presentation by, and preliminary discussion with, the Ministry and MartinJenkin about the modelling approach; but we have not yet received any written material about the methodology and assumptions, or had an opportunity to review the model itself, or seen any definitive numbers. So we are not in a position to provide Ministers with assurances about the costings.

Proposed approach

We understand that Doug Martin favours a counter-offer that involves qualifications-based pay, with workforce conditions monetised into headline wage rates.

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Nor do we know how the Ministry intends to implement a qualifications-based system: specifically, will workers be able to decide for themselves whether to undertake more training and thus increase their pay rates, or will staffing numbers / qualifications be prescribed from the centre (and how will this be reflected in prices). This will obviously affect the overall cost of the settlement. We do not know what assumption has been made for costing purposes about the distribution of workers between the various qualification levels.

Translating wages into prices

In our September briefing note, we pointed out that the cost of a settlement will ultimately depend on how wage increases are translated into the prices paid to providers. These need to be negotiated with providers and will have to reflect the details of the settlement (including any requirements about staff qualifications – see above).

The Ministry undertook to develop revised costings that reflected this translation of wages into prices. So far, this has not happened. The costing work to date continues to focus on wages and we do think significant progress has yet been made in terms of thinking about the consequences for prices. As we understand it, Doug Martin's view remains that that things are best dealt with sequentially: first negotiate wages; then negotiate prices. However, without a clear sense of how the settlement will be implemented – in terms of actually transferring money to providers – it remain difficult to have confidence in the costings.

Other practicalities

Other practical matters that have yet to be resolved include [38]

Some Ministers have previously raised concerns about flow-on impacts for people who meet the costs of aged-residential care privately. Mitigating those effects would increase fiscal costs (perhaps by as much as 20%).

We understand that the costs to ACC are now being incorporated into the costings and that these are expected to be material. Again, we have not yet seen the numbers or had an opportunity to consider the methodology or assumptions.

Risks about the quantum

While we have yet to see the revised costings, there is some risk that these will understate the eventual cost of a settlement.

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Second, the costings are likely to net out assumed wage inflation under the status quo arrangements. In other words, they will assume that wages would have increased by x% per annum anyway (funded through the annual Vote Health Budget uplift), and deduct this amount in determining the cost of a negotiated settlement. Conceptually, this is not unreasonable. However, it does mean that the costings may underestimate the actual fiscal cost of (say) a five-year wage settlement with this workforce.

We cannot confirm either of these points until we have had an opportunity to review the modelling and assumptions.

Summing up

The costing work appears to be moving in the right direction, but we are not yet in a position to give Ministers assurances about the fiscal costs of a settlement. We have not seen revised estimates or had an opportunity to test the assumptions. It is not clear how different choices about the shape of a counter-offer will influence costs. Detailed design work still needs to be done. There is some risk that numbers presented may underestimate the actual fiscal cost of a settlement.

We think it is therefore too soon to give the Crown negotiator revised parameters and resume negotiations. The Ministry needs to complete the work programme it committed to at the beginning of September. This is unlikely to happen between now and 2 November. We remain uncomfortable with the idea of negotiations continuing in the meantime on the basis of a global (e.g. five year) fiscal envelope and general statements about possible wage rates without clear parameters or a considered implementation strategy.

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