

# The Treasury

## Budget 2017 Information Release

### Release Document July 2017

[www.treasury.govt.nz/publications/informationreleases/budget/2017](http://www.treasury.govt.nz/publications/informationreleases/budget/2017)

Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

[1]	to prevent prejudice to the security or defence of New Zealand or the international relations of the government	6(a)
[4]	to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial	6(c)
[11]	to damage seriously the economy of New Zealand by disclosing prematurely decisions to change or continue government economic or financial policies relating to the entering into of overseas trade agreements.	6(e)(vi)
[23]	to protect the privacy of natural persons, including deceased people	9(2)(a)
[25]	to protect the commercial position of the person who supplied the information or who is the subject of the information	9(2)(b)(ii)
[26]	to prevent prejudice to the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied	9(2)(ba)(i)
[27]	to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information - would be likely otherwise to damage the public interest	9(2)(ba)(ii)
[29]	to avoid prejudice to the substantial economic interests of New Zealand	9(2)(d)
[31]	to maintain the current constitutional conventions protecting collective and individual ministerial responsibility	9(2)(f)(ii)
[33]	to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials	9(2)(f)(iv)
[34]	to maintain the effective conduct of public affairs through the free and frank expression of opinions	9(2)(g)(i)
[36]	to maintain legal professional privilege	9(2)(h)
[37]	to enable the Crown to carry out commercial activities without disadvantages or prejudice	9(2)(i)
[38]	to enable the Crown to negotiate without disadvantage or prejudice	9(2)(j)
[39]	to prevent the disclosure of official information for improper gain or improper advantage	9(2)(k)
[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: T2017/294 SH-1-6-3

Date: 17 February 2017

To: Minister of Finance (Hon Steven Joyce)  
Associate Minister of Finance (Hon Simon Bridges)  
Associate Minister of Finance (Hon Amy Adams)

Deadline: None

## Aide Memoire: Terranova: fiscal impacts

You asked us to confirm with the Crown Negotiator that settlement is achievable within the agreed fiscal envelope. Direct incremental settlement costs are expected to be managed within the envelope. This does not include business as usual wage growth, the one-off payment (~\$40 million), employers' leave liabilities ([38]), any compensation for aged-care residents meeting costs privately (up to \$261 million over five years), [38]

### Agreed fiscal envelope

The fiscal envelope agreed by Cabinet in November for MOH and DHB funded services was \$1.703 billion over five years, as summarised in table 1 below. The envelope relates to the "incremental" cost of a settlement, after assumed business-as-usual (BAU) wage growth is deducted. This BAU wage growth will either need to be absorbed by providers [38] or funded through annual Vote Health budget allocations or reprioritisation. These figures are also shown in table 1.

A settlement will also impose costs on ACC levy payers and non-earners, as well as on aged-care residents who meet costs privately. These costs were discussed in the November Cabinet paper, but in the interests of simplicity are not included in table 1. How ACC-related costs will eventually affect the Crown accounts depends on actuarial calculations and funding and levy decisions.

**Table 1. Costs of settlement for MOH/DHBs/providers (as at November 2016)**

	2017/18	2018/19	2019/20	2020/21	2021/22	5 year total
Incremental impact of negotiated settlement for MOH/DHBs (the agreed fiscal envelope)	232	281	335	395	461	1,703
Assumed BAU wage growth (additional fiscal cost unless absorbed by providers)	[38]					
Total cost of settlement for MOH/DHBs/providers	[38]					

## **Things that will be managed within the envelope**

As signalled, there are some moving parts (in the negotiations and the modelling) that could impact the costings. As well as some minor adjustments to the scope of the settlement (number of workers included), the key issues are worker qualifications and BAU wage growth.

### ***Worker qualifications***

The proposed settlement would introduce a 4-tier qualifications-based pay scale. A key assumption for costing purposes is therefore the number of staff holding qualifications at different levels. Costing work done in November assumed that most staff would initially be at levels 1 and 2 (the lower levels). This assumption has now been revised, for two reasons:

- First, it is now envisaged that a competent, reasonably experienced staff member would normally hold a level 3 qualification (with levels 1 and 2 being entry and stepping-stone qualifications respectively).
- Second, the settlement is likely to include arrangements to transition existing workers onto the level 2 and 3 wage rates based on years of service rather than qualifications (2 years and 8 years' service respectively).

About 50 percent of the workforce is now expected to be at level 3 (with about 10 percent at level 4) by year five. This assumption is quite uncertain and actual numbers will only be known after the new arrangements have been up and running for a few years. So there is some post-settlement fiscal risk here.

### ***BAU wage growth***

The agreed fiscal envelope is based on settlement costs net of assumed BAU wage growth. If BAU wage growth is assumed to be high, the net cost is reduced (making any given settlement proposal look cheaper than it otherwise would). The opposite is also true, of course. Costing work done in November assumed BAU wage growth of

[38]

A more conservative assumption has now been adopted (annum). This means that the agreed fiscal envelope allows for a less generous settlement than previously thought.

### ***How are these issues being managed?***

The Ministry of Health has spoken to the Crown negotiator and confirmed his expectation that these issues can be managed within the fiscal envelope agreed by Cabinet in November, because:

[38]

- The wage rates tabled by the Crown in its final offer for settlement will be lower (at levels 2 and 3) than those assumed in the November costing – to the extent necessary to stay within the envelope.

### **Other matters (outside the fiscal envelope)**

There are a number of other matters with potential fiscal impacts that are not currently expected to be managed within the agreed fiscal envelope.

#### ***One-off payment***

The idea of a one-off payment has been discussed. The cost of this is provisionally estimated at about \$40 million. The Crown negotiator has indicated that this cost would be in addition to the agreed fiscal envelope. Options to avoid this additional cost might include:

- Further reducing proposed wage rates in the Crown's final offer for settlement. This could be hard to sell to the unions, as it would require them to accept a less generous on-going wage structure in return for a one-off lump sum. An offsetting reduction in year 1 wage rates only (with no impact on later years) might be worth considering.
- Treating the one-off lump sum as payment in lieu of the new wage rates. If the new wage rates are effective from 1 July 2017 but not actually paid until later in the year, the lump-sum could be netted off against retrospective payments once they are made. This is logical, but could be administratively messy.
- Not making a one-off payment.

#### ***Employers' leave liabilities***

Once the new wage rates are introduced, employers' financial liabilities in respect of outstanding leave entitlements will increase. The associated one-off cost is provisionally estimated at <sup>[38]</sup>

Note also that there are on-going discussions with employers about whether the new wage rates are in addition to existing employment conditions, particularly night and weekend penal rates, or subsume them. The unions and the Crown negotiator assume the former; the employers assume the latter. This issue mainly affects the residential care sector. As indicated previously, implementing the settlement means agreeing price increases with employers, as well as wage increases with the unions.

### **Costs borne privately by people in aged residential care**

People in aged residential care may pay a portion of the costs themselves, depending on their income and assets. The proposed settlement will increase the rest home price. Therefore, under current policy settings, these people will have to pay more – around \$240 a week (27 percent) more by year five, excluding BAU cost growth.

The Ministry of Health is looking at policy options to mitigate these impacts, for which it may seek funding in Budget 17. This would be in addition to the agreed fiscal envelope, and also in addition to the Budget bids submitted to date (so it is not included in any of the Budget numbers you have seen so far). Table 2 summarises the fiscal cost of fully offsetting the incremental impact on aged-care residents. The impact of BAU wage growth is also shown, for completeness, although there is no particular reason to compensate people for this.

**Table 2. Costs borne privately by aged-care residents (as at November 2016)**

	2017/18	2018/19	2019/20	2020/21	2021/22	5 year total
Incremental impact of negotiated settlement	36	43	51	60	70	261
Impact of assumed BAU wage growth*	[38]					
Total impact						

\* Treasury estimate

[38]

**John Marney**, Principal Advisor, Health, [39]

**Ben McBride**, Manager, Health, Health, [39]