

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: T2017/910 SH-1-6-3

Date: 4 April 2017

To: Minister of Finance (Hon Steven Joyce)

Deadline: For discussion with Joint Ministers on Wednesday evening.

Aide Memoire: Terranova update

We enclose a copy of the latest settlement offer from the unions. A meeting of Joint Ministers has been scheduled for tomorrow evening to discuss this. We have not yet seen the Ministry of Health's formal advice on the offer: this probably won't be available until late today or tomorrow.

We have updated our "run sheet" setting out the various proposals and costings (also enclosed). The latest proposal has been costed at \$2.048 billion over five years plus \$32 million in one-off transitional costs. So the total five-year cost is \$2.080 billion. The annual Crown cost by year five is estimated at \$527 million. Over the four-year Budget horizon (by 2020/21), this implies an increase in net debt of around \$240 million. Note that, as signalled previously, all these numbers are subject to change once ACC formally models OCL and other impacts (which should happen later this week).

Under the latest union offer, all existing employers at 1 July 2017 would qualify for service-based progression through the new pay rates, regardless of qualifications. For example, an unqualified worker with 5 years' experience would transition to Level 2 in 2017, and would then move up to Level 3 in 2020 on reaching 8 years' experience. The only modification to this service-based progression for existing employees relates to Level 4. Existing employees would move to Level 4 if they had 12 years' experience on 1 July 2017. If they reach 12 years' experience after 1 July 2017, they would move onto a special rate (one dollar less than the full Level 4 rate); they would need to obtain a Level 4 qualification to receive the full rate.

For employees joining the workforce after 1 July 2017, progression would be based on qualifications rather than time served. The proposal specifies that employees should be supported to reach Level 2 within 12 months, Level 3 within three years, and Level 4 within six years. There is no mention of employment at any level being influenced by demand for the relevant qualification. For example, the need to vary skill mix according to the type of service being delivered does not appear to be a factor that would modify employers' obligation to facilitate the progression of all workers up to Level 4.

The proposed matrix of wage rates incorporates an assumption of annual wage growth of 1.7 percent per annum, based on movements in the Labour Cost Index (LCI) over the last five years. The union offer includes a provision to automatically adjust rates in year 5 if average annual LCI growth exceeds 1.7 percent per annum over the first four years of the settlement. This one-way bet in employees' favour obviously introduces some additional fiscal risk from 2021/22 onwards, although if LCI movements turn out to be consistent with the HYEPU forecasts, the provision would not be triggered.

As indicated previously, the unions are seeking a commitment from the Crown to conclude a settlement on similar terms with relevant MSD workers, notwithstanding that they are outside the scope of these negotiations. The associated cost has been estimated at [38] per annum, although we have not seen any analysis to support this and numbers have a tendency to creep upwards after the Crown commits itself to negotiations. Although some sort of settlement with these workers will probably be necessary in due course, it seems preferable to avoid making a binding commitment until the full implications are known (including possible flow-ons from this flow-on). An agreement under the new pay equity regime might anyway be the better option.

In terms of next steps, the Ministry of Health is aiming to get a paper seeking Cabinet's formal agreement to a settlement to SEC on 12 April and Cabinet on 18 April. We expect to have updated ACC numbers by then.

John Marney, Principal Advisor, Health, [39]

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

Care and Support Equal Pay Negotiations Union Final Position for Settlement (31/3/17) Without Prejudice

This position is from the union negotiating parties in response to the Government offer conveyed to the unions on 28 March 2017.

The unions note the 18 month long negotiating process and the historic significance of any prospective settlement but are also cognisant of the need to achieve a positive ratification of such a settlement by the care and support workforce for the benefit of all parties and the future development of services.

Nature of Settlement

Both parties are agreed that this settlement is an historic step forward for women workers in the elimination of systemic undervaluation of care and support work. As such, it is a significant step in addressing gender based inequality in New Zealand.

The parties agree that the settlement will extinguish all pay equity claims made prior to 1 July 2017 for the employees covered by this settlement.

The settlement addresses historic issues of systemic gender discrimination and by its nature involves a change in wage relativities. Consequently, the parties agree that this settlement will not be used as a precedent for other occupational groups.

Scope of Settlement

The unions generally accept the provisions in the Scope of Settlement from the Crown proposal of 8 March 2017.

For the avoidance of doubt, home support workers employed by the following District Health Boards are covered by this settlement:

Auckland DHB, Counties Manukau DHB, Waikato DHB, Wairarapa DHB, Hutt Valley DHB, Nelson Marlborough DHB, Canterbury DHB, West Coast DHB,

Vocational Disability Support Workers

The parties have agreed that there will be a further process, within a short time period, to conclude a separate settlement with MSD for vocational disability support workers consistent with the terms of this Agreement.

Support for Training

The unions and Government absolutely support care and support workers gaining formal qualifications and wish to create the right incentives for employers to allow this to happen. To this end, the contracts between funders and providers (employers) will require employers to provide the necessary systems and support to enable workers covered by the settlement to reach the following NZ Qualifications Authority Health and Wellbeing Certificate (or their relevant equivalent) qualifications within the following time periods:

- Level 2 NZ Certificate – within 12 months of commencement of employment
- Level 3 NZ Certificate – within 3 years of commencement of employment
- Level 4 NZ Certificate – within 6 years of commencement of employment

The Government, through legislation, will ensure there is a deemed employment agreement term for employees to be supported to achieve the certificates in the above time frames.

The Government will fund employers for two days per employee per year (via on costs) as its contribution to education and training.

The goal is to have an industry wide workforce which is trained to meet current and future service needs.

Care and Support Workers, Minimum Pay Rates and the Qualification Path

The minimum rates and progression for care and support workers employed after 1/7/17 will be the following:

	1 July 2017 Year 1	1 July 2018 Year 2	1 July 2019 Years 3/4	1 July 2021 Year 5
L0	\$19.00	\$19.80	\$20.50	\$21.50
L2*	\$20.00	\$21.00	\$21.50	\$23.00
L3*	\$21.00	\$22.50	\$23.00	\$25.00
L4*	\$23.50	\$24.50	\$25.50	\$27.00

*"Qualifications" are those recognised by NZQA

Maintaining Currency of Rates

If the All Industries Labour Cost Index by 30 June 2021 (for the period 1 July 2017 to 30 June 2021) moves on average by more than 1.7% annually then the figures in the above tables applying from 1 July 2021 will be adjusted accordingly.

Weekend and Night Penal Rates

Should any care and support worker union collective agreement or employee individual agreement have a night or weekend penal rate (as opposed to a weekend or night shift allowance) calculated as a percentage of the base rate such penal rates for care and support workers covered by this settlement shall be converted into an allowance based on the collective or individual agreement wage scales as at 30 June 2017.

If there is any dispute as to the transition of these penal rates into allowances any party to an employment agreement (as set out above) may seeking a final and binding decision on this matter by a Labour Inspector.

Extinguishing of Allowances

The unions accept that this settlement will from 1 July 2017 extinguish any separate ongoing service allowance or qualifications allowance for care and support workers within the scope of this Agreement that is contained in any collective or individual agreement.

Transition for Existing Care and Support Workers

The Government and the unions recognise the historic nature of this agreement in addressing systemic gender inequality. The agreed transition and progression process for existing care and support workers from 1 July 2017 reflects the fact that many long-serving and experienced care and support workers have never had their skills and experiences recognised through formal qualifications.

All existing care and support workers on 1 July 2017 will move on to the following scale either at the step that recognises their current qualifications or their service with their current employer, whichever is the most advantageous.

	1 July 2017 Year 1	1 July 2018 Year 2	1 July 2019 Year 3/4	1 July 2021 Year 5
L0 or <3 years service	\$19.00	\$19.80	\$20.50	\$21.50
L2* or 3+ years service	\$20.00	\$21.00	\$21.50	\$23.00

L3* or 8+ years service	\$21.00	\$22.50	\$23.00	\$25.00
L4* or 12+ years service	\$23.50	\$24.50	\$25.50	\$27.00

*"Qualifications" are those recognised by NZQA

Pay Rate Progression for Existing Care and Support Workers

All existing care and support workers on 1 July 2017 will increase their pay rates under this scale on the basis of either service or qualifications, whichever is the most advantageous to them as set out below:

- Progression to Level 2 will be on attainment of the Level 2 qualification or after the completion of 3 years current continuous service with their employer as of 1 July 2017
- Progression to Level 3 will be on the attainment of the Level 3 qualification, or after 8 years current continuous service with their employer as of 1 July 2017.
- Progression to Level 4 will be on the attainment of the Level 4 qualification.

All existing care and support workers who reach 12 years current continuous service with their employer after 1 July 2017 and who have not achieved a Level 4 Certificate will move on to the following rates unless there are genuine reasons based on reasonable grounds that the employee's employer did not provide the support necessary for the employee to achieve the Level 4 qualification, in which case the employee will be entitled to move to the Level 4 step above.

After 1 July 2017	On or after 1 July 2018	On or after 1 July 2019	On or after 1 July 2021
\$22.50	\$23.50	\$24.50	\$26.00

"Current continuous service" includes service recognised as continuous for the purposes of transferring workers.

Other Matters

Kristine Bartlett Settlement

There is a separate agreement, which is attached.

Ratification Process

The union proposal for the ratification meetings (see attached document) for care and support workers within the scope of this settlement is also agreed by Government on the

grounds that it is consistent with earlier precedents involving legislation and provides a mandate for subsequent legislation that removes back-pay, phases in new rates and extinguishes claims. The successful carrying out of such a ratification is a condition of this settlement. The MOH will support the implementation of the ratification process and in good faith encourage all employers to comply with this process.

The Government will fund employers at the rate of \$25.00 per care and support worker who are verified by the union and the employer as having attended a ratification meeting.

Consequent Legislation

The settlement will be legislated in a way that is consistent with the signed settlement document and acceptable to the union parties.

John Ryall

On behalf of the Unions Negotiating Team

OPTION AND MODEL

WAGE MATRIX (including annual wage growth assumption)

TRANSITION (existing workers)

Costing of the union position at at November 2016 (discussed in the November Cabinet paper)

	2017/18	2018/19	2019/20	2020/21	2021/22	5 year
Costing in November Cabinet paper						
MOH and DHBs	364	417	475	540	612	2,408
ACC	40	44	49	55	61	249
Total Crown	404	461	524	595	673	2,657
Costs borne by aged-care residents	55	63	71	82	92	364
Costs borne by ACC levy payers	88	99	110	123	136	556
Crown cost plus private cost	547	623	706	800	901	3,577

	Assumes [38] annual wage growth				
	Year 1	Year 2	Year 3	Year 4	Year 5
Level 0	[38]				
Level 2					
Level 3					
Level 4					

No transitional rules
Pure qualifications-based pay regime

	2017/18	2018/19	2019/20	2020/21	2021/22	5 year
.... updated using new model						
MOH and DHBs	[38]					
ACC						
Total Crown						
Costs borne by aged-care residents						
Costs borne by ACC levy payers						
Crown cost plus private cost						

	Assumes [38] annual wage growth				
	Year 1	Year 2	Year 3	Year 4	Year 5
Level 0	[38]				
Level 2					
Level 3					
Level 4					

No transitional rules
Pure qualifications-based pay regime

	2017/18	2018/19	2019/20	2020/21	2021/22	5 year
... updated again to include transitional rules						
MOH and DHBs	440	493	550	614	684	2,781
ACC	48	52	57	62	68	287
Total Crown	488	545	606	676	752	3,067
Costs borne by aged-care residents	60	68	75	84	94	381
Costs borne by ACC levy payers	106	117	127	140	152	642
Crown cost plus private cost	654	729	809	900	997	4,089

Wage matrix as above

Years worked	Move to pay level
1	2
2	3
3	4

Effectively, a service-based pay regime. (Better reflects the unions' position.)

Costing of the Crown's position as at November 2016 (the basis of the mandate approved by Cabinet in November).

	2017/18	2018/19	2019/20	2020/21	2021/22	5 year
Costing behind the November mandate						
MOH and DHBs	232	281	335	395	461	1,703
ACC	25	30	35	40	46	176
Total Crown	257	311	369	435	507	1,879
Costs borne by aged-care residents	36	43	51	60	70	261
Costs borne by ACC levy payers	56	67	77	90	103	393
Crown cost plus private cost	349	421	498	585	680	2,532

	Assumes [38] annual wage growth				
	Year 1	Year 2	Year 3	Year 4	Year 5
Level 0	[38]				
Level 2					
Level 3					
Level 4					

No transitional rules
Pure qualifications-based pay regime

	2017/18	2018/19	2019/20	2020/21	2021/22	5 year
.... updated using new model						
MOH and DHBs	[38]					
ACC						
Total Crown						
Costs borne by aged-care residents						
Costs borne by ACC levy payers						
Crown cost plus private cost						

	Assumes [38] annual wage growth				
	Year 1	Year 2	Year 3	Year 4	Year 5
Level 0	[38]				
Level 2					
Level 3					
Level 4					

No transitional rules
Pure qualifications-based pay regime

The Crown's "final" settlement offer - March 2017

	2017/18	2018/19	2019/20	2020/21	2021/22	5 year
Costed using the new model						
MOH and DHBs	228	276	327	384	447	1,662
ACC	25	29	34	39	45	172
Total Crown	253	305	361	423	491	1,833
Costs borne by aged-care residents	32	39	46	53	62	231
Costs borne by ACC levy payers	55	65	76	87	99	383
Crown cost plus private cost	340	409	482	564	652	2,447

	Assumes 1.7% annual wage growth				
	Year 1	Year 2	Year 3	Year 4	Year 5
Level 0	18.00	18.81	19.65	20.51	21.40
Level 2	19.00	19.83	20.69	21.56	22.46
Level 3	21.00	21.87	22.75	23.67	24.60
Level 4	23.80	24.71	25.65	26.61	27.60

Years worked	Move to pay level
2	2
8	3
n/a	4

The unions "final" counter-offer - March 2017

	2017/18	2018/19	2019/20	2020/21	2021/22	5 year
Costed using the new model						
MOH and DHBs	294	365	398	381	495	1,933
ACC	32	39	41	39	49	200
Total Crown	326	404	439	420	545	2,134
Costs borne by aged-care residents	41	51	55	53	68	268
Costs borne by ACC levy payers	71	87	92	87	110	447
Crown cost plus private cost	438	541	586	559	723	2,847

	Assumes 1.7% annual wage growth				
	Year 1	Year 2	Year 3	Year 4	Year 5
Level 0	19.00	19.80	20.50	20.50	21.50
Level 2	20.00	21.00	21.50	21.50	23.00
Level 3	21.00	22.50	23.00	23.00	25.00
Level 4	24.50	25.50	26.50	26.50	27.50

Years worked	Move to pay level
3	2
8	3
12	4

Doug's proposed counter-offer (under \$2bn)

	2017/18	2018/19	2019/20	2020/21	2021/22	5 year
Costed using the new model						
MOH and DHBs	247	314	370	354	465	1,749
ACC	27	33	38	36	46	181
Total Crown	274	347	408	390	511	1,930
Costs borne by aged-care residents	34	44	51	49	64	243
Costs borne by ACC levy payers	60	75	86	80	103	404
Crown cost plus private cost	368	466	545	519	678	2,577

	Assumes 1.7% annual wage growth				
	Year 1	Year 2	Year 3	Year 4	Year 5
Level 0	18.50	19.00	19.50	19.50	20.00
Level 2	19.50	20.50	21.50	21.50	23.00
Level 3	20.50	22.00	23.00	23.00	25.00
Level 4	24.50	25.50	26.50	26.50	27.50

Years worked	Move to pay level
3	2
9	3
14	4

Union's latest offer for settlement (\$2.05bn plus one-offs)

	2017/18	2018/19	2019/20	2020/21	2021/22	5 year
Costed using the new model						
MOH and DHBs	283	352	381	360	478	1,854
ACC	31	37	40	37	49	194
Total Crown	314	389	421	397	527	2,048
Costs borne by aged-care residents	39	49	53	50	66	257
Costs borne by ACC levy payers	68	84	88	82	106	429
Crown cost plus private cost	421	522	562	530	699	2,735

	Assumes 1.7% annual wage growth				
	Year 1	Year 2	Year 3	Year 4	Year 5
Level 0	19.00	19.80	20.50	20.50	21.50
Level 2	20.00	21.00	21.50	21.50	23.00
Level 3	21.00	22.50	23.00	23.00	25.00
Level 4	23.50	24.50	25.50	25.50	27.00
Special	22.50	23.50	24.50	24.50	26.00

Years worked	Move to pay level
3	2
8	3
12	4

Plus one-off costs

[38]

sub-total: one-off costs	31.90
Total Crown cost of new proposal	2,080

Under this proposal, all existing employees at 1 July 2017 would qualify for service-based progression through the new rates regardless of qualifications (e.g. an unqualified worker with 5 years' experience would transition to Level 2 in 2017 and move up to Level 3 in 2020). Existing employees will move to Level 4 if they have 12 years' experience on 1 July 2017. If they reach 12 years' experience after 1 July 2017, they will move onto the special rate (one dollar less) and will only qualify for the full