

The Treasury

Budget 2017 Information Release

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[1]	to prevent prejudice to the security or defence of New Zealand or the international relations of the government	6(a)
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[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: T2017/998 SH-1-6-3

Date: 11 April 2017

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

Deadline: Ahead of SEC on Wednesday, 12 April.

Aide Memoire: Terranova: Cabinet paper

The Minister of Health has lodged a paper for consideration by SEC tomorrow, seeking Cabinet's agreement to settle the care and support pay equity negotiations (Terranova). The proposed settlement and associated costs are in line with recent discussions between Ministers and the Crown negotiator. Final agreement between the parties has not yet been reached, but is expected next week. Key tables from the Cabinet paper are included in an appendix to this note.

Costings

Table 2 of the Cabinet paper summarises costings in the format Ministers have seen before. The following points are worth noting.

- The cost is estimated at \$2.048 billion over five years, with a cost by year five of \$520 million per annum. The numbers have undergone a few tweaks over the last week or so, with the addition of a small number of DHB workers and an adjustment to estimated implementation costs, but the overall cost is unchanged. These minor adjustments are, in any case, well within the costing's margin of error – which, over a five-year horizon, will be considerable.
- Costs shown for ACC in table 2 are “cash costs” (actual expenditure in respect of earners and non-earners in a given year). This was the approach used when the original mandate was set in November, but it does not correspond to the impact of ACC costs on appropriations or the Crown's accounts (T2016/2190 refers). This is why these numbers do not match the amounts that will be appropriated to Vote Labour Market (table 3 of the Cabinet paper).
- The costs of the settlement will be managed outside the operating allowance. Most of the cost was included in the HYEPU forecasts. The cost of the settlement exceeds the November mandate, so there will be an additional impact on the Crown's accounts that will be picked up in BEFU. We have provisionally estimated the impact on net debt at around \$240 million over the forecast period,

but this could change. We will provide an update once we have received a final breakdown of impacts from ACC.

- Costs borne privately by aged-care residents and ACC levy payers are shown separately. They are estimated at \$245 million and \$424 million respectively (over five years). There is a good discussion of the impact on aged-care residents in the body of the Cabinet paper. It will be important for the government to have clear lines on both issues by the time the settlement is announced.

Other matters

The key aspects of the settlement are consistent with what you have seen before. We have mentioned the following points in previous briefing notes.

- Table 1 of the Cabinet paper sets out the wage matrix. Progression up to Level 4a will be on time served for existing employees. Progression to Level 4b, and all progression for new employees, will be based on qualifications. Employers are required to support workers up to 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.
- The proposed wage rates incorporate 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. If average annual LCI growth exceeds 1.7 percent per annum over the first four years of the settlement, rates in year 5 will be adjusted. This adds some fiscal risk, although 1.7 percent per annum is below forecast.
- The agreement will commit the Crown to conclude a similar settlement with MSD and MVCOT workers. The associated cost has been estimated at [38] million per annum, although we have not seen any analysis to support this and the estimate seems uncertain. We would have preferred the Crown to avoid entering into a binding commitment before the full consequences are known. However, the flow-on cost would likely have arisen anyway – and it appears to be relatively modest.
- [38]

John Marney, Principal Advisor, Health, [39]

Ben McBride, Manager, Health, [39]

APPENDIX: KEY TABLES FROM THE CABINET PAPER

Table one: Matrix of proposed wage rates

	Year 1	Year 2	Year 3	Year 4	Year 5
	1 July 2017	1 July 2018	1 July 2019	1 July 2020	1 July 2021
L0	19.00	19.80	20.50	20.50	21.50
L2	20.00	21.00	21.50	21.50	23.00
L3	21.00	22.50	23.00	23.00	25.00
L4a ^s	22.50	23.50	24.50	24.50	26.00
L4b	23.50	24.50	25.50	25.50	27.00

Table two: Revised annual and total settlement costs

		2017/18	2018/19	2019/20	2020/21	2021/22	5 year total
Crown costs	MOH and DHBs	\$303m	\$348m	\$377m	\$356m	\$472m	\$1.856b
	ACC	\$31m	\$37m	\$39m	\$37m	\$48m	\$0.192b
	Total Crown	\$334m	\$385m	\$416m	\$393m	\$520m	\$2.048b
Costs borne privately by aged-care residents		\$37m	\$47m	\$50m	\$48m	\$63m	\$0.245b
Costs borne by ACC levy payers		\$68m	\$83m	\$87m	\$81m	\$105m	\$0.424b
Crown cost plus private cost		\$439m	\$515m	\$553m	\$522m	\$688m	\$2.717b

*Costing assumptions can be found in Appendix Two.

Table three: Breakdown of costs for proposed settlement

	2017/18 (\$million)	2018/19 (\$million)	2019/20 (\$million)	2020/21 (\$million)	2021/22 & outyears (\$million)	Total (\$million)
Vote Health (Minister of Health)	279.000	348.000	377.000	356.000	472.000	1832.000
Vote Labour Market (Minister for ACC)	44.900	41.000	35.600	35.500	35.400	192.400
Contingency	24.000	-	-	-	-	24.000
Total additional costs	347.900	389.000	412.600	391.500	507.400	2048.400