The Treasury

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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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[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.

From: John Marney [TSY]
Sent: Thursday, 10 November 2016 1:14 p.m.
To: Arati Waldegrave [DPMC]
Cc: Ben McBride [TSY]; Rose Jago
Subject: RE: Terranova Costs

Arati –

On wage inflation, 2 things are going on.

- First, the new wage matrix proposed in the paper ($17.85 to $25.39) is the current (year 0) rate. This is then inflated by [38] Thus, the actual wage matrix by year 5 will be [38] This is what has been costed, subject to the point below.

- Second, the cost presented in the cabinet paper ($1.880 bn over 5 years) is net of assumed BAU wage growth. This is the cost of assumed wage inflation if the whole terranava thing had never happened. This BAU wage growth has been based on an estimate of [38] increases in the minimum wage and something like [38] wage inflation for other wage rates. This averages out to something like [38] BAU wage inflation. Netting off reduces the cost presented in the Cab paper (with a bit of a bias because of the different wage growth rates), but it won't affect the gross cost.

On penals, etc. This is complicated and I haven't had time to get to the bottom of it. But my understanding of how it works is as follws (most easily explained by way of an example - in which the numbers are just illustrative).

- Workers of type X are assumed to receive weekend penal rate of 50 cents an hour. With an aggregate value for that workforce of $10 million per annum.
- The MHA weekend penal rate is $1.50 an hour. With an aggregate value of $30 million per annum.
- The monetisation calculation assumes that this leaves $20 million that can be used to increase base rates. This money will be averaged across the workforce to increase base rates for all workers irrespective of conditions.
- It is assumed that workers of type X will continue to receive a weekend penal rate of 50 cents an hour from their employer under the new settlement. (I think – not sure – that this is just an assumption – i.e. actual penals will continue to be at the discretion of employers).
- The cost of the settlement (for worker type X) is calculated based on the difference between the old base rate plus 50 cent penal and the new base rate plus 50 cent penal.

The first step in this calculation relies on MOH estimates / assumptions (i.e. is an input into the MJ modelling, rather than a product of Nick's work). [38]

I might be wrong about all this. Nick Hunn would be the guy to talk to for a definitive explanation of how the calculation works.

John

From: Arati Waldegrave [DPMC]
Sent: Thursday, 10 November 2016 12:15 p.m.
To: John Marney [TSY] [39]
Cc: Ben McBride [TSY] [39]
Subject: FW: Terranova Costs

[SEEMAIL][SENSITIVE]

Hi John

It would be good to know what you guys think about the answers below.

Thanks

Arati

From: Michael Johnson [39]
Sent: Thursday, 10 November 2016 12:05 p.m.
To: Arati Waldegrave [DPMC] [39]
Subject: FW: Terranova Costs

FYI so you in the loop

From: Michael Johnson
Sent: Thursday, 10 November 2016 12:05 p.m.
To: Cameron Burrows
Subject: RE: Terranova Costs

Hi Cam

Answers below

Cheers

Michael.

Michael Johnson I Senior Advisor - Health I **Office of the Hon Dr Jonathan Coleman**
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[39]

From: Cameron Burrows
Sent: Thursday, 10 November 2016 8:40 a.m.
To: Michael Johnson
Subject: Terranova Costs

Thanks for that.

So just to confirm, the $1.88 billion cost to the Crown that is quoted in the Cabinet paper includes:

- The cost of paying staff different rates to reflect they are working nights/weekends/public holidays or whatever.

The funding model includes an allowance to take account of weekend and night penal rates, which impacts the Aged Residential Care costs. Care and support workers will still receive their existing conditions on top of the new rates.

- 'Business as usual' wage inflation over the five years that is being modelled (at, say, [38] a year or something like that).

Yes, the model takes account of wage inflation and assumes wage rates will grow at [r annum. This has been factored into the cost modelling.

Appendix C of the Cabinet paper details the cost assumptions made as part of the cost modelling.

Cheers
Cam

Cameron Burrows | **Chief Policy Advisor**
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