

The Treasury

Budget 2017 Information Release

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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.

From: David Kidson [39]
Sent: Monday, 27 February 2017 10:45 a.m.
To: John Marney [TSY] [39]
Cc: Ben McBride [TSY] [39]
Subject: RE: Terranova - MoF responses

Hi John,

MoF came back with a couple of comments on your Terranova points. Will give you a call to discuss.

- Leave
 - o need a response on whether employers are managing the leave costs down in anticipation of the settlement (getting people to take leave)
 - o Appreciate that nobody scales back annual leave after a pay rise. And the amount of days remains unchanged. But when someone leaves and their remaining holiday pay is cashed out, (the only time it has to be paid out) – as a matter of employment law is the outstanding leave calculated at the current hourly rate or the hourly rate that applied when the leave was accrued (ie the amount recorded on the books)?

- Unsubsidised hours and changing business models
 - o I really want a much better answer from MoH than we have had to date here. They have now had a long time to work out how they could manage the settings to manage down the fiscal risks of these flow-on costs. Can MoH and Treasury get me a briefing on their options to manage these asap?

Thanks,

David Kidson | Economic Advisor

Office of Hon Steven Joyce | Minister of Finance | Minister for Infrastructure
7.2 Beehive, Parliament Buildings, PO Box 18041, Wellington 6160, New Zealand

[39]

From: John Marney [TSY] [39]

Sent: Wednesday, 22 February 2017 1:49 p.m.

To: David Kidson

Cc: Ben McBride [TSY]

Subject: RE: Terranova - MoF responses

[SEEMAIL][SENSITIVE]

Hi David,

Some comments on comments below in red. I have updated this slightly following our conversation just now. Hope it fits the bill.

John

From: David Kidson [39]

Sent: Monday, 20 February 2017 10:24 a.m.

To: John Marney [TSY] [39]

Cc: Ben McBride [TSY] [39]

Subject: Terranova - MoF responses

Hi John,

Thanks for the briefing on Terranova. MoF came back with a few comments/questions below:

- Noted that he wants any upfront payment to come from *within* the envelope. Asked to make sure that view is provided to the negotiator and MoH

I have passed that message on. The Ministry floated the possibility of offsetting the cost of the one-off payment by deferring the effective date of the settlement to some point after 1 July. This would also help to ease some of the pressure on implementation timelines. They are still thinking about the options.

And said:

- In regards to employers leave liabilities – employers should be managing these down – they have been aware of these negotiations for a long time. Don't employment liabilities anyway accrue at the rate you were being paid at the time - under our employment law?

My understanding is that the liability is for annual leave (time off). I don't think employers can scale this back when people get a pay rise: I'd be shocked if my employer did that to me. Once pay rates increase, the value of accrued leave will increase in monetary terms. I have spoken to Ministry of Health officials and this is also their view, although they will check with their legal team and confirm this when detailed advice on the proposed offer goes up to Ministers.

- We need to be developing our thinking on costs born privately. We certainly should not be compensating for BAU wage growth, and I am concerned at funding any of the rest. It would set an interesting precedent. It's not apparent in any way what proportion of the full cost is handed on to paying clients (it will be much less than 100% - because we are funding 100% of the rest)

The fiscal envelope relates to funding for the increased cost of subsidised hours at the subsidised rate. Unsubsidised hours are backed out in the costing model, so we are not funding anything in respect of those. These cost of these hours is met privately – and the effect of the new wage rates will be to increase those privately-met costs by around \$260m over 5 years. [38]

Note that prices for aged-residential care, including the unsubsidised component, are regulated (set by the Crown). This means that the amount passed through will depend on the price rates negotiated with providers as part of this settlement, not market elasticities. (The final cost of the settlement to the Crown will also depend on these price rates.)

- What work has been done by MOH on the impact this settlement (if it happens) will have on business models – ie reduction in staffing numbers and more automation?

This was raised with the Ministry on various occasions by OMOF, but progress has been limited to date. What we will get, following settlement, is basically the same service at a higher price point, at least in the short term. Whether the settlement will change the incentives on providers to revisit their business models over the longer term is moot. It will increase labour costs as a proportion of total costs. But the increase will be fully or largely subsidised by the Crown; and labour is already the largest operating cost for this sector. Cath Atkins raised this issue specifically with MOH at DCE level in October and the response she got was along the following lines:

“what is difficult is to predict is how the market will react over time to doubling of costs per effective hour of care.... These things will not impact the price paid to settle Terra Nova but they will impact future models of care. Predicting what they are now is nigh impossible but what can be said is that there will be efficiencies over time from a stable and efficient qualified workforce. The work we are currently undertaking in relation to Part B of the IBT Agreement ('future models of care") is being carried out in the context that Terra Nova may settle. In 2017 this will inform us as to how we direct and guide funding to ensure these efficiencies have the desired effect of growing this stable and efficient qualified workforce rather than flowing to one group's bottom line.”

I spoke to the Ministry and they indicated that they had been doing some more thinking about this, which they would cover off when they report to Ministers on the proposed offer. This may be quite light on detail. Let me know what you think about those questions,

Cheers,

David Kidson | Economic Advisor

Office of Hon Steven Joyce | Minister of Finance | Minister for Infrastructure
7.2 Beehive, Parliament Buildings, PO Box 18041, Wellington 6160, New Zealand

[39]

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