

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.

From: John Marney [TSY]
Sent: Wednesday, 5 April 2017 2:29 p.m.
To: ^Parliament: David Kidson
Subject: FW: [seemail] Final Care and support update 4 April
Attachments: Care and support update 4 April.docx

[SEEMAIL][SENSITIVE]

MOH note. They have costed \$2.048bn – i.e just assumed that the one-offs (~\$32m) are offset by the penal savings (~\$43m). This is ok – in the roundings given order of magnitude.

From: Paki_Ormsby [39]
Sent: Wednesday, 5 April 2017 2:20 p.m.
To: Michael Johnson [39]
Cc: Jane Douglas [SSC] [39]; Samuel Thornton [39]; John Marney [TSY] [39]; Tania Warburton [DPMC] [39]; Graham Law [39]; 'Joanna Holden' [39]; Stephen_Barclay [39]; Simeon_Mead [39]
Subject: [seemail] Final Care and support update 4 April

Michael

Finalised note for this afternoon's meeting.

Thanks

Paki Ormsby
Critical Projects
Ministry of Health
[39]

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Care and Support negotiations: Key Points

- Following direction from Ministers, the Crown Negotiator met with Unions to settle care and support negotiations for under \$2 billion. On 28 March, the Crown negotiator tabled an offer costed at \$1.93 billion. In response, on 31 March, Unions tabled a proposed offer of settlement costed at \$2.048 billion (including one off settlement costs¹) over five years as outlined below.

		2017/18	2018/19	2019/20	2020/21	2021/22	31 March Union offer Cost: 5 Years	Cabinet cost Nov 2016 Cost: 5 Years	Difference Cost: 5 Years
Crown costs	MOH and DHBs	\$283m	\$352m	\$381m	\$360m	\$478m	\$1.854b	\$1.703b	\$0.151b
	ACC	\$31m	\$37m	\$40m	\$37m	\$49m	\$0.194b	\$0.176b	\$0.018b
	Total Crown	\$314m	\$389m	\$421m	\$397m	\$527m	\$2.048b	\$1.879b	\$0.169b
Costs borne privately by aged-care residents		\$39m	\$49m	\$53m	\$50m	\$66m	\$0.257b	\$0.261b	(\$0.003b)
Costs borne by ACC levy payers		\$68.41	\$83.61	\$88.35	\$82.10	\$106.46	\$0.429b	\$0.393b	\$0.036b
Crown cost plus private cost		\$421m	\$522m	\$562m	\$530m	\$699m	\$2.735b	\$2.532b	\$0.202b

- By comparison, in November 2016 a previous Union offer was estimated to cost at least \$2.6 billion. The current Union position achieves all the other Crown objectives, especially:
 - no back-pay
 - extinction of all 6000 existing claims
 - a qualification based pay scale.
 - agreement that this settles all pay equity claims for this group of employees
 - a commitment that the settlement will not be used as a basis for relativity claims for other groups.
- There are, however, a number of areas where further discussion is required with Unions, and the Crown negotiator and officials are working through those issues.

Proposed 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 ²	22.50	23.50	24.50	24.50	26.00
L4b	23.50	24.50	25.50	25.50	27.00

- The above elements of the Union offer are outlined for Ministers consideration; the Crown negotiator thinks this is as far as the Unions are likely to progress and seeks advice on how Ministers may wish to proceed. Further advice is provided below on areas where Ministers have sought further information.

Implementation Planning

- Any potential settlement agreement that is signed will detail the agreement between the parties, including the new pay scale and the means of progressing through that scale by

¹ Savings from penal rates broadly offset the one off settlement costs

² Level 4a transition rate is for 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.

obtaining relevant qualifications. The settlement agreement is being drafted in anticipation of settlement and a copy has been provided to the unions.

- The key points of the settlement agreement, including pay rates, will be included in legislation that will impose an obligation on employers to pay the new rates.
- Funding to providers will ultimately flow by means of a variation to the contractual price paid for the service. The mechanism for contract negotiations varies between sectors (aged care, home and community care, community residential living) and the time needed to negotiate contract changes will also vary. While the price changes are being negotiated the Ministry will develop a process to vary existing contracts to pay a monthly amount to ensure providers have the funds to cover the costs of pay increases.
- Whatever the payment mechanism, the timing of the pay increases will vary between sectors and providers and there will be a need for retrospective payments to 1 July 2017. Unions have been made aware of this in the course of negotiations.
- As the Ministry is not an employer of the workers in question, it will not be directly party to individual employment contracts. The Ministry will however undertake audits of providers and monitoring of the process. In addition, the legislated pay rates will be enforceable by workers and unions, irrespective of whether employment agreements have been varied to reflect the new rates.

Provider issues

- Providers have raised a number of concerns in the course of negotiations, largely around how funding for the pay increases will be incorporated into current funding structures which are being addressed by the Ministry of Health's implementation team. Providers have raised concerns about the workforce relativity impacts for wider staff (cooks/cleaners, supervisors) not covered by the agreement. Providers also regularly raise concerns which sit outside of this settlement, about funding and the ongoing sustainability of the sector.
- The assumptions within the cost model have been shared with the providers and there is general acceptance that the model is based on the best available data and reasonable assumptions.
- Given the concerns raised by providers as outlined above, the question of whether providers should be party to the settlement agreement has been discussed extensively. We have taken the view, given the limited timeframe available, that the agreement should be between the Crown and the unions. This is supported by the unions and providers.
- It makes the implementation of the agreement more complex, but an agreement and associated funding can still be implemented. In the long term, funding will be disbursed via a contract change, with the Ministry reimbursing providers directly for the actual costs of the wage increase in the interim. A more detailed piece of advice has been prepared on this issue.

Next steps – subject to change

	Planned	Back up
To Minister	7 April	26 April
Policy approval SEC	12 April	3 May
Cabinet confirmation	18 April (Joint announcement following cabinet confirmation)	9 May
Drafting	18 April-5 May	18 April -20 May
Budget paper	24 April	24 April (may need joint Minister's agreement)
Ratification finishes	20 May (Press release welcoming ratification)	20 May
LEG	10 May	24 May
Caucus	9 May	30 May
Introduction	24 May (Press release on introduction and 1 st reading – promote select committee submissions)	31 May
First reading	24 May	8 June
Select committee	25 May-30 June (possible press release on report)	21 June
Second reading	1 June	27 June
Committee Stage	8 June	28 June
Third Reading	20 June (press release on 3 rd reading)	29 June
Royal Assent	21 June	30 June
Commencement	1 July 2017 press release on commencement)	1 July