

The Treasury

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[40]	Not in scope	

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SSC Aide Mémoire: Care and Support worker pay equity negotiations (TerraNova)

Date:	3 March 2017	Report No:	SSC2017/110
Contact:	Marilyn Rimmer	Telephone:	[23]

Purpose

- 1 This aide mémoire provides comment on a briefing paper from the Ministry of Health on the Care and Support negotiations. The briefing paper includes a revised offer for settlement that the Crown Negotiator intends to table with unions on Wednesday 8 March 2017. Ministers are meeting on Tuesday 7 March 2017 to discuss the revised offer ahead of the scheduled negotiations with unions.

Overview

- 2 Negotiations covering around 55,000 care and support workers have been underway since June 2015. The purpose of the negotiations is to achieve a pay equity settlement for this workforce and at the same time settle the TerraNova case out of court. [38]
- 3 The Ministry of Health and Crown Negotiator have developed a settlement proposal which provides for wage increases and career progression for care and support workers linked to attainment of qualifications. This is expected to improve the quality of services and reduce turnover.
- 4 The settlement proposal responds to a union offer that was higher than Government's agreed fiscal envelope. The settlement proposal is within the Government envelope of \$1.88b (agreed by Cabinet in November 2016).
- 5 The settlement proposal includes several changes from the Ministry of Health's November 2016 Cabinet paper. The main changes include:
 - An assumption that 50% of the workforce will achieve a level 3 qualification over the 5 years of the settlement. This is higher than earlier estimates and reflects a consensus reached with funders, employers and trainers that typically a Level 3 qualification will be required.
 - A one-off transition arrangement for existing employees without the requisite qualifications but with years of care and support worker experience.
 - A small hourly wage increase for each qualification level in each year of the agreement and a further 1.7% per annum 'across the board' increase during the term to maintain the currency of the new pay rates.
 - Provision to meet the initial cost to providers of leave accrued prior to the settlement date and to cover backfill costs of two days training leave per annum per employee (pro-rated).
- 6 The total cost to the Crown of the proposed settlement package over 5 years is \$1.851b. Note that this excludes a further \$0.214b contribution by private paying residents and \$0.387b costs borne by ACC levy payers. The Ministry of Health expects that the proposed settlement offer should settle the pay equity claim for this workforce.
- 7 The Crown Negotiator intends to table the settlement proposal with unions on 8 March 2017. There are a number of issues yet to be worked through with unions including appropriate qualification pathways and career progression. The planned effective date of a settlement is 1 July 2017 if unions accept the proposal offered.

- 8 The Ministry of Health is working with relevant agencies on a draft settlement agreement and supporting legislation (to confirm and record pay rates and extinguish back pay).
- 9 The Ministry of Health has commenced planning for implementation through funder and provider contracts. Due to the complexity of the sector including over 400 providers it is unlikely that all pay increases will be able to be implemented on 1 July and it is expected that some provider contract variations may continue into early 2018. This will result in the retrospective payment of wage increases to some employees.

SSC Commentary

- 10 SSC has been consulted on the paper and is comfortable overall with the Ministry's approach and the proposed settlement.
- 11 Given the size and complexity of the negotiations, there are some remaining areas of risk around achieving a settlement and in how a settlement may play out over the five year term.

Qualification pathway:

- The Crown proposal is based on an assumption that 50% will gain Level 3 qualifications with commensurate higher pay rates over the 5 year period.
- This is acknowledged as a tentative assumption in the paper.
- SSC considers this figure is low and should be higher – between 60% and 70%.
- If 60% of the workforce gain Level 3 qualifications over the 5 year period there will be an increase to Crown costs of 3.2% or \$60 million over 5 years which will result in costs exceeding the financial parameters approved by Cabinet.

Maintaining currency of the pay rate:

- The Crown proposal includes costings of wage increases of 1.7% over the 5 year term. The intention of this is to maintain the currency of the new pay rates.
- [38]

- 12 Aged Residential Care – increased provider contribution:
- Any settlement is likely to result in increased care costs for approximately 11,000 aged residential care residents who have assets above the threshold (\$220,000).
 - While the estimated increases are lower than those estimated in the Ministry of Health November Cabinet paper due to updated data, the cost increases to these residents will range from 7.4% in year 1 to 11.6% in year 5.
 - Ministers may want to consider if they would like further advice on the impact of a settlement on this group of residential care residents.
- 13 Implementation planning:
- The Ministry of Health has started planning the implementation of an agreed settlement. You might wish to ask the Ministry of Health if it has confidence in the feasibility of timeframes for implementation of any settlement and pay increases to care and support workers.