

Reference: 20210316

1 October 2021



Dear 

Thank you for your Official Information Act request, received on 12 July 2021. You requested:

any information or advice provided between 1 March 2020 and 8 July 2021 by the Treasury to Ministers about public sector pay.

On 9 August 2021, you were advised that the Treasury had extended the timeframe to decide on this request by 40 working days.

Information being released

Please find enclosed the following documents:

Item	Date	Document Description	Decision
1.	2 March 2020	Email: FW: Drawdown request: Non-Teaching Staff Collective Agreements	Release in part
2.	9 December 2020	Email: Corrections JM Paper for Contingency Drawdown (Wage Bargaining)	Release in part
3.	14 January 2021	Email: Omnibus email on Education issue and JM paper advice	Release in part
4.	10 February 2021	Treasury Report T2021/242: Finance Portfolio Meeting (11 February) - Managing public sector wage pressures	Release in part
5.	20 April 2021	Treasury Report T2021/1015: Clarifying the Fiscal Management of Public Sector Pay Equity Settlements	Release in part

I have decided to release the documents listed above, subject to information being withheld under one or more of the following sections of the Official Information Act, as applicable:

- section 9(2)(f)(iv) – to maintain the current constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials,

- section 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expression of opinions,
- section 9(2)(g)(ii) – to maintain the effective conduct of public affairs through protecting Ministers, members of government organisations, officers and employees from improper pressure or harassment,
- section 9(2)(j) - to enable a Minister of the Crown or any public service agency or organisation holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations),
- section 9(2)(k) – to prevent the disclosure of information for improper gain or improper advantage.

Some information has been redacted because it is not covered by the scope of your request. This is because the documents include matters outside your specific request.

We have redacted the direct dial phone numbers of officials under section 9(2)(k) in order to reduce the possibility of staff being exposed to phishing and other scams. This is because information released under the OIA may end up in the public domain, for example, on websites including Treasury's own website.

Please note that there is further information in scope of your request that is held by the Public Service Commission. We have interpreted your request as Treasury advice only, and therefore have not included information held by the Public Service Commission.

Information publicly available

The information listed in the table below is also covered by your request and is available on the Treasury website at <https://www.treasury.govt.nz/publications/information-release/treasury-advice-public-service-pay-guidance>.

Item	Date	Document Description
6.	9 December 2020	Email: FW: MOGSSER meeting Thursday 4pm
7.	9 December 2020	Email attachment: Meeting briefing - Key messages for Central Agency CEs
8.	10 February 2021	T2021/242: Finance Portfolio Meeting (11 February) - Managing public sector wage pressures
9.	5 March 2021	T2021/527: Cabinet briefing, 8 March 2021
10.	11 March 2021	T2021/599: Upcoming Issues Briefing to the Minister of Finance Report - 11 March 2021
11.	18 March 2021	Email: Advice on pay restraint
12.	18 March 2021	T2021/675: Upcoming Issues Briefing to the Minister of Finance Report - 18 March 2021
13.	25 March 2021	T2021/732: Upcoming Issues Briefing to the Minister of Finance Report - 25 March
14.	26 March 2021	Email: FYI - Joint TSY/PSC briefing on pay restraint for middle-earners (\$60-100k) to be sent Monday EOM
15.	29 March 2021	Email: RE: Ministerial Consultation on Cabinet Paper
16.	31 March 2021	T2021/806: Upcoming Issues Briefing to the Minister of Finance Report - 31 March 2021
17.	31 March 2021	Email: FYI - pay restraint - update on joint report and Cabinet paper

You may be interested in additional information relating to your request that is publicly available on the Public Service Commission website at <https://www.publicservice.govt.nz/our-work/information-releases/advice-seen-by-our-minister/>

Item	Date	Document Description
18.	28 September 2020	Joint Report T2020/3199: Te Kawa Mataaho/Treasury Report - Update on the Public Service Employment Relations Environment - September 2020

Some relevant information has been removed from the documents listed in the above tables and should continue to be withheld under the Official Information Act, on the grounds described in the documents.

Accordingly, I am refusing the request for this information under section 18(d) of the Official Information Act:

- the information requested is or will soon be publicly available.

Information to be withheld

There are additional documents in the table below covered by your request that I have decided to withhold in full under the following sections of the Official Information Act, as applicable:

- section 9(2)(j) - to enable a Minister of the Crown or any public service agency or organisation holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).

Item	Date	Document Description
19.	10 December 2020	T2020/3685: Papers for the Ministerial Oversight Group on State Sector Employment Relations (MOGSSER) December 2020
20.	17 February 2021	T2021/290: Papers for the Ministerial Oversight Group on State Sector Employment Relations (MOGSSER) February 2021
21.	24 March 2021	NZNO bargaining update including talking points/comms
22.	14 April 2021	T2021/824: Papers for the Ministerial Oversight Group on State Sector Employment Relations (MOGSSER) April 2021
24.	13 May 2021	NZNO Options paper seeking the Minister of Finance's endorsement
25.	13 May 2021	Update on strike action
26.	14 May 2021	Action: briefing for Cabinet (W/C 17 May 2021) (DUE TOMORROW 2PM)
27.	21 May 2021	RE: Cabinet Commissioning email for PreCab next week - briefings due 12 pm and potential 3 PC items due 10 am (21 May)
28.	28 May 2021	NZNO update (offer is expected to be made tomorrow) including supporting material
29.	28 May 2021	Cabinet oral item briefing Monday 31 May
30.	4 June 2020	Re: Late item for status report
31.	16 June 2020	Re: MOGSSER agenda
32.	25 June 2021	NZNO update (bargaining in confidence)
33.	26 June 2020	RE: FW: MOGSSER Papers - Drafts for Officials meeting at 4pm Wednesday 17th June

In making my decision, I have considered the public interest considerations in section 9(1) of the Official Information Act.

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

This reply addresses the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Gwen Rashbrooke', with a large, stylized initial 'G'.

Gwen Rashbrooke
Manager,
Communities, Learning and Work

TOIA 20210316

Table Of Contents

1.	<u>Email - FW Drawdown request Non-Teaching Staff Collective Agreements</u>	1
2.	<u>Email - Corrections JM Paper for Contingency Drawdown (Wage Bargaining)</u>	3
3.	<u>Email - Omnibus email on Education issue and JM paper advice</u>	4
4.	<u>Treasury Report Finance Portfolio Meeting (11 February) - Managing public sector wage pressures</u>	6
5.	<u>Treasury Report Clarifying the fiscal management of public sector pay equity settlements</u>	17

-----Original Message-----

From: Ian Moore [TSY] <ian.moore@treasury.govt.nz>

Sent: Monday, 2 March 2020 5:01 PM

To: ^Parliament: Talei Pasikale <Talei.pasikale@parliament.govt.nz>

Cc: Claire Howard [TSY] <Claire.Howard@treasury.govt.nz>; Nicky Lynch [TSY] <Nicky.Lynch@treasury.govt.nz>;

Maraea Mullane-Ronaki <Maraea.Mullane-Ronaki@treasury.govt.nz>

Subject: FW: Drawdown request: Non-Teaching Staff Collective Agreements

Hi Talei

I'm picking up this as I provided our earlier feedback to MoE. We would recommend that the paper is fine for the MoF to sign.

We think it would be useful for the MoF to note in signing that he is not agreeing to an ongoing increase in the living wage (recommendation (e) p3 refers to "the current living wage" (this figure comes from Living Wage Aotearoa and is a one-off adjustment and non an ongoing increase)).

The MoF may also wish to confirm that through signing he is confirming his satisfaction with the outcome of the bargaining. This refers back to recommendation 13 from the relevant Cabinet Minute, CAB-19-MIN-0627:

(13 authorised the Minister of Education and the Minister of Finance to jointly draw-down the tagged operating contingency funding referred to in paragraph 12 above (establishing any new appropriations as necessary), subject to their satisfaction with the outcome of the bargaining referred to in paragraphs 4 and 8 above).

Please let us know if you need anything further.

Kind regards

Ian

Ian Moore | Principal Advisor, Education & Population Agencies | Te Tai Ōhanga – The Treasury

Tel: s9(2)(k) | Email/IM: Ian.Moore@treasury.govt.nz Visit us online at <https://treasury.govt.nz/> and follow us on Twitter, LinkedIn and Instagram

-----Original Message-----

From: Talei Pasikale <Talei.Pasikale@parliament.govt.nz>

Sent: Monday, 2 March 2020 2:55 PM

To: Maraea Mullane-Ronaki <Maraea.Mullane-Ronaki@treasury.govt.nz>
Cc: Claire Turner [TSY] <Claire.Turner@treasury.govt.nz>; Nicky Lynch [TSY] <Nicky.Lynch@treasury.govt.nz>
Subject: Drawdown request: Non-Teaching Staff Collective Agreements

Kia ora Maraea

Could you please let me know as soon as practicable if the attached is ok for the MoF to sign and, if necessary, provide covering advice or comments?

Thanks, Talei

Talei Pasikale, Economic Advisor | Office of Hon Grant Robertson | s9(2)(k)

-----Original Message-----

From: Talei Pasikale
Sent: Monday, 2 March 2020 2:50 PM
To: Talei Pasikale <Talei.Pasikale@parliament.govt.nz>
Subject: Scan Data from Fuji_MFD_350817

Sent by: pasikalt [Talei.Pasikale@parliament.govt.nz]
Number of Images: 8
Attachment File Type: PDF

Device Name: Fuji_MFD_350817
Device Location: EW 7.6 - [MFD]

From: Katie Neate [TSY]
Sent: Wednesday, 9 December 2020 5:41 pm
To: ^Parliament: Jeff DeJong
Cc: Elle Hughes [TSY]; Tim Stevenson [TSY]; Kosal Kong [TSY]; Carolyn Palmer [TSY]; Colin Hall [TSY]
Subject: Corrections JM Paper for Contingency Drawdown (Wage Bargaining)

Hello Jeff,

We understand that you will shortly receive a Joint Ministers paper from Corrections. The paper seeks the Minister's agreement to draw down \$5.087 million in 2020/21 and \$10.090 million annually from 2021/22 from the "Maintaining Safe Community Services – Wage and Salary Bargaining Contingency" to Corrections to fund the collective wage pressures. We recommend that MoF agrees to this.

Background

In Budget 2020, Cabinet approved \$10.700 million per year in contingency funding for Corrections as part of an initiative to maintain safe community services by funding collective wage pressures for Community Corrections workers and psychologists. The previous collective agreements expired on 30 June 2020 and negotiations towards new agreements were delayed due to COVID-19.

The two agreements, which cover 2020-2022, were ratified on 16 October and 24 November 2020. Corrections worked closely with the PSC on the bargaining strategy and outcomes for the frontline bargaining process. The combined impact of implementing the agreements is assessed as \$5.087 million in 2020/21 only and \$10.090 million annually from 2021/22. The average pay increase was 1.7%.

s9(2)(j)



The separate collective agreement covering Corrections' custodial staff will expire on 30 June 2021, which is likely to be signalled as a cost pressure for Budget 2021. s9(2)(f)(iv)



Please let me know if you have any questions.

Ngā mihi
Katie

Katie Neate (*she/her*) | Analyst | Justice, Security and Government Services | **Te Tai Ōhanga – The Treasury**

Tel: s9(2)(k) | Email/IM: Katie.Neate@treasury.govt.nz

Visit us online at <https://treasury.govt.nz/> and follow us on [Twitter](#), [LinkedIn](#) and [Instagram](#)

From: Claire Howard [TSY]
Sent: Thursday, 14 January 2021 4:02 pm
To: ^Parliament: Talei Pasikale
Cc: Caitlin Andrews [TSY]; Ian Moore [TSY]; Vicki Plater [TSY]; Bevan Searancke [TSY]
Subject: Omnibus email on Education issue and JM paper advice

Kia ora Talei,

Sending the below content on behalf of Caitlin. This email provides our advice on four joint Ministers papers you sent for our comment this week, Out of scope

Cheers,

Claire

Item	Treasury recommendation	Additional comments
Education Report: Second tranche of implementation of the Teacher Aide Pay Equity Settlement	Approve	Treasury was consulted in the development of this paper and recommends MoF agrees to the recommendations.

Out of scope

Out of scope

Out of scope



Claire Howard (she/her) | Education & Population Agencies | Te Tai Ōhanga – The Treasury

Tel: s9(2)(k) | Email/IM: Claire.Howard@treasury.govt.nz

Visit us online at <https://treasury.govt.nz/> and follow us on [Twitter](#), [LinkedIn](#) and [Instagram](#)

(I work a nine-day fortnight, with every second Friday off)



Treasury Report: Finance Portfolio Meeting (11 February) - Managing public sector wage pressures

Date:	10 February 2020	Report No:	T2021/242
		File Number:	SH-2-2-10-5

Action sought

	Action sought	Deadline
Hon Grant Robertson Minister of Finance	Discuss which proposed levers you are interested in taking forward with officials on 11 February	11 February 2021

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Michael Thomson	Analyst, Skills and Work	s9(2)(k)	s9(2)(g)(ii) ✓
Nick Carroll	Manager, Skills and Work		

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: No

Treasury Report: Finance Portfolio Meeting (11 February) - Managing public sector wage pressures

Executive Summary

You have a Finance Portfolio Meeting with Treasury officials at 3:30pm on 11 February to discuss public sector wages.

You have two objectives for public sector wages that may require reconciliation:

- increasing wages for low and inequitably paid groups, and
- managing wage spending growth to fit within allowances.

We want to understand how you would like to manage these objectives over the next 12 months, to help us give you better advice on upcoming milestones, including MOGSSER on 17 February, Budget 2021 and decisions on manifesto commitments such as Fair Pay Agreements.

Under current policy, we expect personnel costs to grow faster than planned Budget allowances. Managing these pressures would require either making difficult trade-offs on major fiscal items (health spending, superannuation, public sector wages or revenue increases), or delaying the forecast stabilisation of net debt in 2023. We also expect current policy will improve wages and conditions for some, but leaves gaps in timely improvements particularly for non-unionised private sector workers.

We have outlined indicative options for managing these risks in the table in **Annex One**, including:

- Out of Scope
- s9(2)(j)
- providing bargaining agencies with a strong mandate to negotiate with increased weighting on affordability considerations at the meeting of MOGSSER Ministers on 17 February

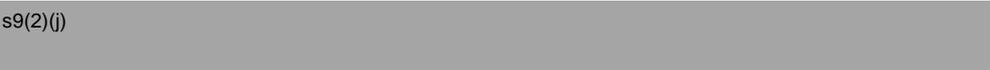
We seek your feedback on which levers you are most interested in prioritising, in order for us to narrow our work programme to best support your priorities.

Recommended Action

We recommend that you:

- a **note** the Government has the following objectives which may require reconciliation:
 - a. increasing wages for low and inequitably paid groups (ie, Fair Pay Agreements, pay equity, pay parity, living wage), and
 - b. managing wage spending growth to fit within allowances

- b **discuss** which of the levers in the table in **Annex One** you are interested in progressing further to manage wage pressures, including:
 - a. Out of Scope 

 - b. s9(2)(j) 

 - c. providing bargaining agencies with a strong mandate to negotiate with increased weighting on affordability considerations at the meeting of MOGSSER ministers on 17 February

Nick Carroll
Manager

Hon Grant Robertson
Minister of Finance

Treasury Report: Finance Portfolio Meeting (11 February) - Managing public sector wage pressures

Purpose of Report

1. You have a Finance Portfolio Meeting with Treasury officials at 3:30pm on 11 February to discuss public sector wages. This discussion follows from a conversation with Central Agency Chief Executives at the December 2020 meeting of the Ministerial Oversight Group for State Sector Employment Relations (MOGSSER).

We seek your steer on how you want to manage public sector wages over the next 12 months

2. You have two objectives for public sector wages that may require reconciliation:
 - increasing wages for low and inequitably paid groups, and
 - managing wage spending growth to fit within allowances.
3. This discussion contributes to upcoming decisions and milestones including:
 - A meeting of MOGSSER on 17 February to discuss significant public sector bargaining milestones across 2021,
 - Budget 2021 decisions in March, and
 - Decisions on manifesto policies (including on living wage for government contractors in February, Fair Pay Agreements in April and pay parity through Budget 2021).
4. We want to understand which key priority workforces you are most concerned about, what weighting you give to policy versus fiscal objectives, and which levers you are most interested in prioritising. This will help us narrow our work programme to best support your priorities.

Context

Managing within forecast Budget allowances will require difficult trade-offs

5. Net debt growth is expected to stabilise by 2023 under the fiscal strategy settings underpinning HYEFU 2020, provided that Government spending stays within forecast Budget allowances. You are likely to face difficult trade-offs to keep within these allowances (Figure 1), given historic spending growth trends, and known upcoming costs (ie, rebalancing District Health Board (DHB) deficits, major sectoral transformations, annual cost pressures).

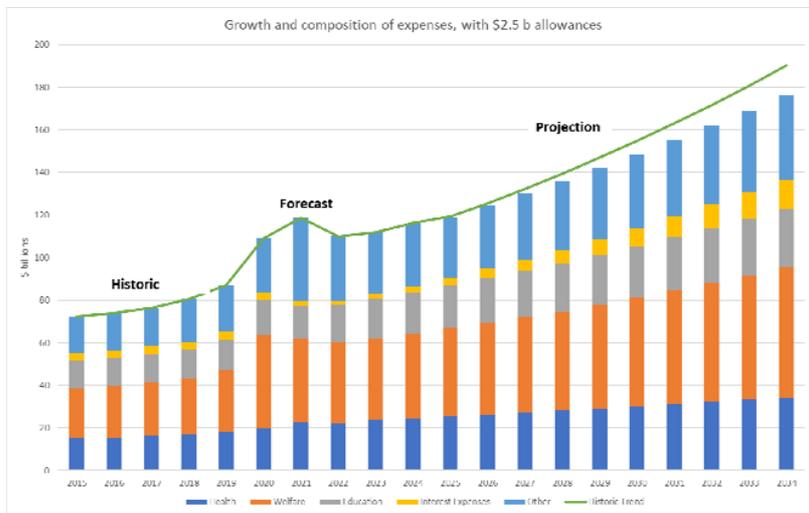


Figure 1: Spending growth, existing settings (line) vs constrained by allowances of \$2.5 billion (bars)

To build a shared understanding of those trade-offs, we want to discuss your levers for public sector wages

6. Wages are a significant structural driver of public spending, accounting for 20% of public spending in direct wage costs and contributing significantly to the cost of government contracted services¹. As such, managing public sector wage growth is a key lever alongside other key drivers such as superannuation and managing cost growth in major sectors like health and education. s9(2)(g)(i)

7. To build a better shared understanding of the trade-offs, we want to share what outcomes we expect from current policy settings, and discuss options you have to change long-term trajectories.

8. We intend for this discussion to inform, and be informed by, your relative appetite for controlling pressure on allowances via public sector wage measures versus other major levers, and your different objectives for public sector wages. Because wages are an input into policy outcomes, this becomes a question about which policy and/or fiscal outcomes you and your colleagues are willing and able to trade off the level or pace of progress.

9. Existing and planned wage-related policies are shown in the table below.

¹ While not monitored directly, wage costs for contracted services are likely to comprise a high proportion of the 41% of funding in the public accounts listed as “Other” spending).

Existing and planned wage-related policies	
Goal: Manage wage spending growth	Goal: Increase wages and conditions for workers on low & inequitable pay
<ul style="list-style-type: none"> • Tightening global fiscal management controls, including setting tight allowances of \$2.625 billion per annum, running an invite-only Budget process, and delegating focus on expenditure control to the Associate Minister of Finance. • s9(2)(f)(iv) • The Public Service Commissioner is considering extending public sector pay restraint expectations beyond the 30 June 2021 end date of current expectations, and Cabinet will soon consider issuing a Government Workforce Policy Statement which sets out the Government's expectations for negotiation of employment agreements in the public sector. • Regular oversight of the Ministerial Oversight Group for State Sector Employment Relations (MOGSSER) 	<ul style="list-style-type: none"> • Introducing a system of Fair Pay Agreements (FPAs). • Supporting pay equity settlements, • Pay parity for selected health and education workforces. • Extending living wage guarantees to government contracted workforces. • Regular increases to minimum wage. • Developing social sector funding principles, which may result in funding being made available for better wages and conditions for social sector funded workforces. • s9(2)(j)

Under current policy settings we expect personnel costs to grow faster than planned Budget allowances.

10. Figure 2 shows that personnel expenses are expected to grow faster as a share of GDP than their share of current forecast allowances. Scenario modelling using PREFU Fiscal Strategy Model indicates the gap between bottom-up personnel pressures and their share of allowances at PREFU could be \$6.6 billion per annum by 2033/34². The trends in personnel expenditure are reflective of wider trends in government expenditure.

² The PREFU model assumes slightly lower Budget allowances than the \$2.625 billion allowances set by the incoming Government, with an assumed 2% annual growth after the forecast period.

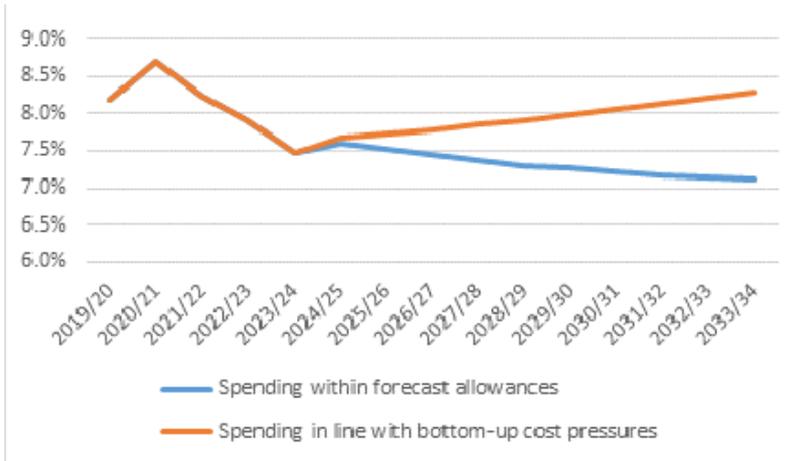


Figure 2: Forecast personnel expenses (excluding SOEs) as a percentage of GDP

11. This is not a new trend, and the bulk of upcoming cost is reflective of historical cost pressures. DHBs, schools and the public service are all significant to total government personnel costs, but the health sector is the main area of growth (Figure 3)³. Demographic trends including population aging will naturally reduce pressure on education and increase pressure on health. Public service demand growth is dependent on policy demand from Ministers, which has been significant in response to COVID-19. Both price and FTE growth are important determinants of growth (Figure 4).

2019/20 Total Personnel Expenses (incl. SOEs)

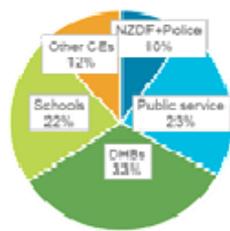


Figure 3: 2019/20 total personnel expenses (excluding SOEs)

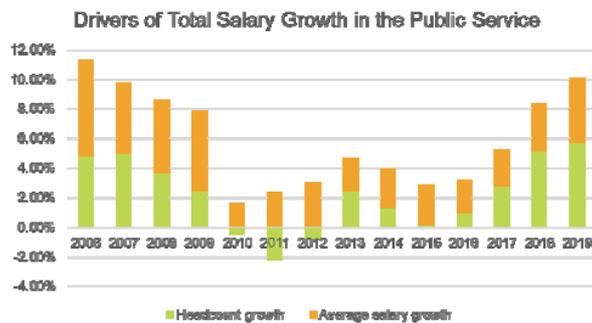


Figure 4: Drivers of total salary growth in the public service

³ Between 2010 and 2019 the health and education sectors experienced significant wage rate growth (21% and 17%, respectively) while headcount growth was much higher in the health sector (29.8% and 7.2%, respectively).

12. Upcoming equity-driven wage policies add to the historical picture in two ways:
- They directly and permanently increase wage expenditure, most significantly through pay equity settlements⁴.
 - They also complicate wage control measures by limiting the scope of workers eligible for pay restraint and by upwardly impacting wage expectations.
13. Existing policies to manage spending are a useful starting point, but we do not expect pay restraint to achieve material reductions in cost growth, and further trade-offs will be needed to meet the intended allowances. While it may indirectly influence the narrative context for collective bargaining, only a limited pool of Public Sector employees are directly affected by pay restraint after accounting for those with contractual increases via collective agreements and workforces eligible for one of the wage-increasing policies above. Restraint is not unilaterally enforceable by Government because employment law requires any wage outcomes to be agreed in good faith with the employee's bargaining agent. Control over wider wage expectations is limited further by better than anticipated economic conditions.
14. We are developing a model to better understand the fiscal outcomes of bargaining outcomes across the public sector, as well as the expected outcomes of pay restraint. We are also continuing to update our model of forecast pay equity settlement costs, and will provide a further update in March, ahead of the Budget Economic and Fiscal Update 2021.

Wage equity policies are expected to improve wages and conditions for some, but there are gaps in timely improvements for some vulnerable groups.

15. Cleaners, caterers and security guards contracting with the government will receive living wages under planned policy, but other low-paid and vulnerable groups particularly in the private sector may not be well-served by current and planned bargaining systems (ie, pay equity settlements, pay parity claims and FPAs).
16. We expect pay increases through bargaining to continue to favour well-organised and unionised workforces in the Public Sector (including nurses, doctors and teachers) due to scarce bargaining capacity in systems designed to have universal and non-prioritised access.

It is unlikely to be possible to achieve both wage equity and fiscal restraint objectives simultaneously without trade-offs elsewhere

17. One approach to reconciling these objectives would be building on existing efforts to prioritise pay increases toward priority groups and clearly communicating your expectation of limited or no growth for other groups. There may be co-benefits to fiscal and equity outcomes through a more targeted system of pay increases to support the most vulnerable. However, we do not anticipate such a system would remove the need for wider trade-offs due to the limited fiscal cost reductions available.

⁴ As at HYEPU 2020, live claims are estimated to cost \$1.2 billion per annum once fully implemented, excluding recently initiated education sector claims for teachers etc.

Tactical options over the next 12 months

- 18. We want to test with you your interest in exploring different options to manage expected fiscal outcomes if bottom-up cost pressures are realised (as shown in Figure 2), and your relative priorities.
- 19. The table in **Annex One** outlines indicative approaches and upcoming tactical windows of opportunity for addressing wage settings.
- 20. Based on these options, we recommend you prioritise the following actions:



Out of Scope



s9(2)(j)

- 25.  s9(2)(j)

⁵ This initiative is led by the Minister for Economic Development.
T2021/242 Finance Portfolio Meeting (11 February) - Managing public sector wage pressures

26.



Provide bargaining agencies with a strong mandate to negotiate with increased weighting on affordability considerations at the meeting of MOGSSER ministers on 17 February

27. Collective bargaining is a key driver of cost, and a key mechanism for achieving wage corrections for vulnerable groups.

28. s9(2)(j)
we recommend you provide a clear mandate to bargaining agencies to negotiate with increased weighting on affordability considerations. This may mean giving a clear mandate for agencies to agree to disagree with unions on some matters.

Next steps

29. We will use the feedback from this meeting to focus our work programme on your key priorities in this area, including where we should be playing a monitoring role versus an active role.
30. You will soon receive further advice to support your MOGSSER meeting on 17 February, Budget decisions in March, and Cabinet papers on manifesto commitments as they arise.

Annex One: Opportunities to influence public sector wages in next 12 months

Policy/lever	Significance & tractability	Current state, key risks and constraints	Tactical options
Overall fiscal settings and expectations	Large fiscal implications Direct fiscal management levers, indirect levers over expectations	Expectations environment less conducive to restraint due to strong economic recovery and expected wage rises for priority groups via government policy. Junior doctors recently settled for 0% increase due to restraint messaging. Fiscal environment remains constrained. You have set relatively tight fiscal allowances over the forecast period, which will drive prioritisation decisions. Public Service Commissioner has issued public sector pay restraint expectations to 30 June 2021.	Budget 2021 decisions in March – Use Budget decisions to drive co-ordinated and prioritised wage and FTE growth outcomes. Cabinet decisions with wage or FTE implications – you may wish to place increased scrutiny on wage and FTE growth. Commissioner may issue extended pay restraint.
Collective Bargaining	Large fiscal implications Medium tractability	24 of 50 public service CEAs expire in 2021, alongside bargaining for nurses/midwives and senior doctors. Opportunities and risks for precedent set around bargaining under pay restraint. Major education sector claims beginning in 2022 will be influenced by precedent set this year.	MOGSSER 17 February – signal to agencies your continued expectation of restraint. Seek consensus with social partners to support restraint messaging. Support agencies to take tight bargaining positions and be prepared for industrial action.

Out of Scope

Pay equity	Large fiscal implications, some levers to influence prioritisation of any emerging	Few levers over advanced claims due to statutory requirements, but some room to influence unions' initiation of any new claims. s9(2)(i)	s9(2)(j)
-------------------	--	--	----------

Out of Scope



Treasury Report: Clarifying the Fiscal Management of Public Sector Pay Equity Settlements

Date:	20 April 2021	Report No:	T2021/1015
		File Number:	SH-2-0

Action sought

	Action sought	Deadline
Hon Grant Robertson Minister of Finance	<p>Note the responses to your questions about the fiscal management of Public Sector pay equity settlements</p> <p>Indicate whether you require further advice on any of the content in this report</p>	None

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Richard Baird	Senior Analyst, Skills and Work	s9(2)(k)	s9(2)(g)(ii) ✓
Nick Carroll	Manager, Skills and Work		

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: No

Treasury Report: Clarifying the Fiscal Management of Public Sector Pay Equity Settlements

Executive Summary

The fiscal management of Public Sector pay equity settlements has developed over time to account for the uncertainty and materiality of these costs to the Crown. The resulting approach:

- enables operating allowances to be set consistent with the Government's fiscal strategy after allowing for any expected costs from future pay equity settlements,
- sensitively incorporates fiscal information that could prejudice the government's bargaining position,
- provides maximum funding and planning certainty for Public Sector employers, enabling them to focus on investigating and negotiating on live claims.

We consider that the overall approach remains appropriate for directly employed workforces, although Ministers have choices about whether and how the ongoing costs of settlements should be offset.

Out of Scope



Recommended Action

We recommend that you:

- a **Note** the responses to your questions about the fiscal management of Public Sector pay equity settlements

Noted

- b **Indicate** whether you require further advice on any of the content in this report

Nick Carroll
Manager

Hon Grant Robertson
Minister of Finance

Treasury Report: Clarifying the Fiscal Management of Public Sector Pay Equity Settlements

Purpose of Report

1. This report provides information on the fiscal management of Public Sector pay equity settlements in response to questions you raised at the Weekly Finance Priorities discussion on 11th February, in the context of managing Public Sector wage pressures:
 - a. What is the estimated fiscal cost of future pay equity settlements as a proportion of total new spending over the forecast period?
 - b. What is the Treasury’s approach to managing and disclosing the estimated fiscal cost of future pay equity settlements? What are the rationales for this approach? How are the estimates prepared, and what are their key limitations? How does the fiscal management of a specific pay equity claim track over the “life-cycle” of that claim?
 - c. What are the current mechanisms to manage the fiscal impacts of pay equity settlements, and what further options could be considered?

2. Out of Scope

Question One: Scale of Forecast Fiscal Costs

What is the estimated fiscal cost of future pay equity settlements, as a proportion of total new spending over the forecast period?

3. The Treasury has recently finalised the estimated fiscal cost of future pay equity settlements for inclusion in the final fiscal forecasts for the 2021 Budget Economic and Fiscal Update. s9(2)(f)(iv)

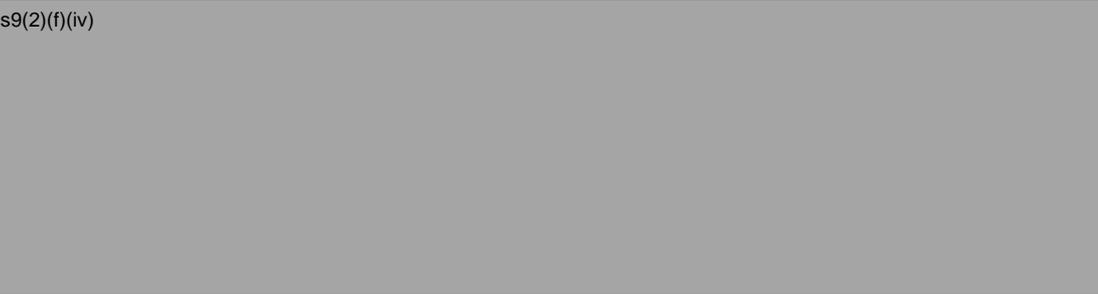
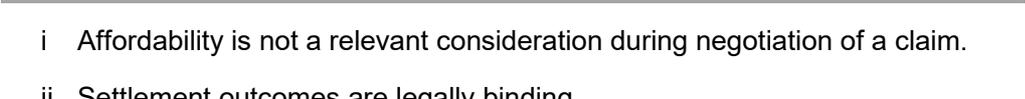
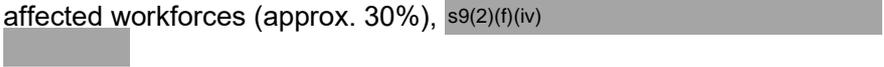
4. s9(2)(f)(iv)

Question Two: Approach to Estimating Forecast Costs

What is the Treasury's approach to managing and disclosing the estimated fiscal cost of future pay equity settlements?

- 5. s9(2)(f)(iv) 
- 6. In addition, the Treasury includes a Specific Fiscal Risk that reflects the variance risk that the actual cost of current and future settlements may be greater or less than the Treasury's estimate.
- 7. Examples of the information published in HYEPU 2020 are included in Appendix One.

What are the rationales for this approach?

- 8. s9(2)(f)(iv) 
- 9. 
- 10. 
 - a. s9(2)(f)(iv) 
 - b. 
 - i Affordability is not a relevant consideration during negotiation of a claim.
 - ii Settlement outcomes are legally binding.
 - iii Settlements to date have represented significant increases to the cost of affected workforces (approx. 30%), s9(2)(f)(iv) 
 - iv s9(2)(f)(iv) 
 - c. s9(2)(f)(iv) 
- 11. s9(2)(f)(iv) 

12. s9(2)(f)(iv)

- a. s9(2)(f)(iv)
- b.
- c.

13. s9(2)(f)(iv)

14.

15.

- a. s9(2)(f)(iv)
- b.
- c.
- d.
- e.
- f.

How does the fiscal management of a specific pay equity claim track over the “life-cycle” of that claim?

Claim is raised

16. When a pay equity claim for a Public Sector workforce is raised and accepted as “arguable”², the Treasury adds the claimant workforce information into the model – assuming it was not already included as an expected claim or “flow-on” claim. This information will then be updated as part of each forecast round, reflecting any further progress of the claim through the legislative process.

17. As noted in paragraph 5, s9(2)(f)(iv)

² Equal Pay Act 1972, s.13F:

“A pay equity claim is arguable if—

- (a) the claim relates to work that is or was predominantly performed by female employees; and
- (b) it is arguable that the work is currently undervalued or has historically been undervalued.”

s9(2)(f)(iv)

18. s9(2)(f)(iv)

19.

Question Three: Managing the Fiscal Impacts

What are the current mechanisms to manage the fiscal impacts of pay equity settlements?

20. As outlined in previous advice, the ability for the Crown to manage the fiscal impacts of pay equity settlements is limited [T2019/1813 refers]. Once a claim has been made, there is a legal obligation for an employer to participate in the legislative process, and affordability is not directly considered within this process.

21. However, the following mechanisms exist in relation to claims for workforces employed in the Public Sector:

- **State Sector Governance Framework** – Cabinet agreed to a milestone-based governance process [GOV-19-MIN-0050 refers] that provides oversight of Public Sector claims. This is not explicitly about fiscal cost. However, supporting and testing the quality/defensibility of assessment against the legislative requirements is intended to prevent bargained outcomes that lack supporting evidence/analysis.

- s9(2)(f)(iv)

- s9(2)(j)

However, this is a relatively weak lever as parties are free to agree to back-dating. Although the Employment Relations Authority cannot rule on back-dating during mediation, it can consider the appropriateness of back-dating if required to 'make a determination' on a claim – the legislation sets out what the Authority must consider in that case.

Out of Scope



s9(2)(f)(iv)

- 23. s9(2)(f)(iv)
- 24.
- 25.

- a. s9(2)(f)(iv)
- b.
- c.

- i s9(2)(f)(iv)
- ii
- iii

- 26. s9(2)(f)(iv)
- 27.

28. s9(2)(f)(iv)

a. s9(2)(f)(iv)

b.

i s9(2)(f)(iv)

ii

s9(2)(f)(iv)

29. s9(2)(f)(iv)

a. s9(2)(f)(iv)

b.

c.

d.

Out of Scope

³ <https://www.mbie.govt.nz/assets/a046adb9fd/regulatory-impact-statement-pay-equity.pdf>



Appendix One: Examples from HYEFU 2021

s9(2)(j)

Figure Two: Specific Fiscal Risk for pay equity disclosed in HYEFU 2020

Pay Equity Claims (Cost Pressure or Variance – Expenses)

A number of claims have been raised in relation to the Equal Pay Act 1972 providing for pay equity (equal pay for work of equal value) and further claims may be raised following commencement of the Equal Pay Amendment Act 2020 in November 2020. The forecasts include an estimate of the expected cost to settle current and future claims; however, there is a risk that the costs may differ depending on the number of further claims that are raised, and the outcomes reached from applying the pay equity principles to each particular claim, and any subsequent funding decisions. In the *Pre-election Update*, this risk was published as 'Pay Equity Claims Following the Care and Support Worker Settlement'.