TE TAI ŌHANGA
THE TREASURY

Reference: 20230002

10 February 2023

Dear [redacted]

Thank you for your Official Information Act request, received on 22 December 2022. You requested the following:

> *Under the OIA, I request all information from the last twelve months (including but not limited to emails, memos, reports, briefings, presentations, text messages) received or prepared by you that refer to, or note in any way, pay parity and/or reducing pay disparity for nurses working in aged residential care.*

On the 20 January 2023, the Treasury contacted you noting that the above request was broad in scope and likely to be refused under section 18(f) of the Official Information Act. With your agreement, the request was rescoped as:

> *All formal advice provided to the Minister of Finance and the Minister of Health by the Treasury within the last twelve months regarding pay parity and/or reducing pay disparity for nurses working in aged residential care.*

Information being released

Please find enclosed the following documents:

Item	Date	Document Description	Decision
1.	5 May 2022	Agenda: Finance Priorities Meeting	The part of document that is in scope is released in part
2.	7 June 2022	Aide Memoire T2022/1259: Briefing for 8 June MOGSSER meeting	Release in part
3.	29 July 2022	Treasury Report T2022/1637: Addressing urgent workforce supply issues due to pay disparities in the health system	Release in part

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https://treasury.govt.nz

4.	9 August 2022	Aide Memoire T2022/1759: Briefing for 10 August MOGSSER	Release in full
5.	4 November 2022	Email Extract from Re: SWC Consultation: Addressing the impacts of pay disparities in the health funded sector, due 5pm on Tuesday 8 November	The part of document that is in scope is released in part
6.	16 November 2022	Treasury Report T2022/2483: Briefing for Social Wellbeing Committee Wednesday 16 November 2022 – Addressing the impacts of pay disparities in the health funded sector	The part of document that is in scope is released in part

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

- personal contact details of officials, under section 9(2)(a) – to protect the privacy of natural persons, including that of deceased natural persons,
- names and contact details of officials, under 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,
- advice still under consideration, section 9(2)(f)(iv) – to maintain the current constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials,
- certain sensitive advice, under section 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expression of opinions,
- under section 9(2)(i) – to enable the Crown to carry out commercial activities without prejudice or disadvantage, and
- direct dial phone numbers of officials, under 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.

Direct dial phone numbers of officials have been redacted 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 website.

Information to be withheld

The below additional documents are covered by your request but I have decided to withhold in full under 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, and
- under section 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expression of opinions.

Item	Date	Document Description	Proposed Action
7.	10 February 2022	Treasury Report T2021/3170: Budget 2022 Health Bilateral: Emerging Health Transitional Package	The part of the document that is in scope is withheld in full under s9(2)(f)(iv) and s9(2)(g)(i).
8.	8 June 2022	Joint Report by Te Kawa Mataaho Public Service Commission 2022/007 and Te Tai OhangaT2022/1206: Papers for the Ministerial Oversight Group on State Sector Employment Relations MOGSSER	Withheld in full under s9(2)(i).

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

Jess Hewat
Manager, Health and ACC

OIA 20230002
Table of Contents

Item	Attendees	Responsible secondee	Description	Action items	Supporting material
Health sector pay parity claims	s9(2)(a)	s9(2)(a)	Pay parity claims are increasingly a feature of the health employment relations landscape, particularly for primary care and aged residential care workforces. There is no established process to manage these claims, although both the Ministry of Health and the Public Service Commission have signalled work is underway on a possible framework. This item will provide further information on potential health sector pay parity claims, and seeks to discuss your preferences on how these are managed.	**Agree** to request an item on pay parity is included on the next MOGSSER agenda.	None.

Reference: T2022/1259 SH-2-7
Date: 7 June 2022
To: Minister of Finance (Hon Grant Robertson)
Deadline: 4 p.m., Wednesday 8 June 2022

Item 5: Ministry of Health Bargaining Update, including Pay Parity (page 44 of meeting pack)

Summary of the item

The Ministry of Health has provided a brief written update on collective bargaining in the health sector, including Multi-Employer Collective Agreements for the Allied, Public Health & Technical and Association of Salaried Medical Specialists (ASMS) / Senior Medical and Dental Officers. This item will offer an opportunity for a further oral update to Ministers on progress in those negotiations. We recommend, though, that the main focus of the item should be on Pay Parity.

Briefing points on the item

This item follows your request at a recent Finance Priorities Meeting for a discussion on Pay Parity in the health sector. Pay Parity claims are an increasing feature of the health employment relations landscape, in particular for the primary care and aged residential care workforces. This item will give an opportunity for the Ministry of Health to provide an update on its proposed response to Pay Parity claims in the sector, s9(2)(f)(iv)

However, as we note in the joint overview briefing (pages 12-13, paras 56-62 of the meeting pack), any move towards Pay Parity in health has wider system implications. In addition, there are alternative options that could help move towards Pay Parity in health while mitigating the precedent risks across the public sector (see page 13, para 61 of the joint briefing). As a result, we recommend that:

- s9(2)(f)(iv)
- There is a further discussion of Pay Parity at the August MOGSSER meeting, focused on both the health sector and wider system considerations.

In light of the above, we recommend that you:

- s9(2)(f)(iv)
- Request an item from central agencies and the Ministry of Health at the next MOGSSER on Pay Parity and other options to resolve the claims being made in health (taking into account the wider system implications of these options).

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Addressing urgent workforce supply issues due to pay disparities in the health system

Date:	29 July 2022	**Report No:**	T2022/1637
		File Number:	SH-1-8

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance** Hon Andrew Little **Minister of Health**	**Indicate** whether you would like further advice from the Ministry of Health and Te Whatu Ora on the proposals in this paper.	1 August 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Justin Alsleben	Analyst, Health	s9(2)(g)(ii)	N/A (mob)	✓
Jess Hewat	Manager, Health		s9(2)(k)	

Minister's Office actions (if required)

Minister of Finance: Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: No

Treasury Report: Addressing urgent workforce supply issues due to pay disparities in the health system

Executive Summary

This briefing responds to your request for advice on:

- an urgent investment in aged residential care to address threats to service provision linked to pay disparities in the health sector; and
- longer-term work to address wider disparities.

It should be read in the context of advice from the Ministry of Health on wider measures to address workforce supply in the short and long term.

We strongly recommend any intervention you decide to make in this space is framed as a funding uplift to address continuity of supply of health services commissioned by Te Whatu Ora and Te Aka Whai Ora. This means that instead of designing a claims-based employment relations solution s9(2)(g)(i) government can have greater control over the quantum of investment, and funding can be targeted at priority areas where workforce supply is most affecting service levels.

In line with your request, we propose a two-step approach, noting that all costings are extremely approximate:

- providing an initial envelope in the range of approximately $30-40 million per annum to be distributed within the current financial year for nurses working within residential care services. We recommend residential care (including aged residential care, hospice care, and residential mental health and addiction services) be the priority for interim investment, given the pressing risk to service delivery, and the flow-on impact to hospitals that a reduction in these services would result in.
- s9(2)(f)(iv)

Because of the lack of quality workforce data in this area, it is difficult to outline with certainty what level of funding will translate into meaningful impacts on easing workforce supply issues. In each case, we recommend Government set the size of the envelope and then direct Te Whatu Ora and Te Aka Whai Ora to report back on how the funding would be best allocated to alleviate pressures on service delivery. This will involve consultation with unions, employers and other interested parties, with the proposed distribution requiring the approval of the Minister of Health and the Minister of Finance.

This advice has been provided on the assumption that action and investment is necessary now. Our best advice, in order to maintain the credibility of multi-year Budgets for Vote Health, would be to allow further work on this issue (including on integration with wider workforce strategies) and to seek funding through the Budget 2024 process in order to allow trade-offs with wider government priorities. If you decide to make a more urgent intervention for residential care services, all funding options will involve compromise; the size of investment required to have any tangible effect on service availability will be too large to manage within baselines unless other significant Budget 2022 investments are deprioritised.

We have outlined a range of options at the end of this paper on potential funding sources for the initial envelope. Based on where we currently are in the process of analysing Te Whatu

Ora's interim budget, it is not possible for us to advise on whether this could be met from their baseline. We will provide further advice on this in coming weeks. s9(2)(f)(iv) s9(2)(f)(iv)

Recommended Action

We recommend that you:

a **note** you have indicated that you want to make an urgent interim investment to address pressing issues in residential care provision arising from pay disparities between different parts of the health workforce, while also progressing longer-term work to address disparities more broadly

b **note** that any funding decision on this topic should be made in the context of wider advice from the Ministry of Health on addressing workforce supply issues

c **note** that, if joint Ministers or Cabinet decide to make an urgent interim investment, we would recommend that it:
- be framed as an investment to ease supply issues arising from pay disparities, rather than as an investment to achieve pay parity;
- cover all forms of residential care (because similar issues arise in hospice and mental health and addiction residential care as in aged residential care, both in terms of maintaining supply, and in terms of flow-on cost to hospitals);
- be funded via a pre-commitment at Budget 2023, for lack of a better funding source; and
- be in the form of a funding envelope to be distributed by Te Whatu Ora after consultation with unions, employers and employees, and with the approval of the Minister of Health and the Minister of Finance to the proposed disbursal

d **note** that this approach:
- s9(2)(j)
- s9(2)(g)(i)

e **note** this approach could be accompanied by a commitment to progress longer-term work on supply issues arising from pay disparities from early 2023 (when the interim process was complete), s9(2)(f)(iv)

f **agree to direct** the Ministry of Health, working with Te Whatu Ora, to provide joint Ministers with advice on progressing the proposals in this paper.

Minister of Finance *Yes/No*	*Minister of Health* *Yes/No*

Jess Hewat
Manager, Health

Hon Grant Robertson **Minister of Finance**	Hon Andrew Little **Minister of Health**
_____/_____/_____	_____/_____/_____

Treasury Report: Addressing urgent workforce supply issues due to pay disparities in the health system

Purpose of Report

1. This briefing responds to Ministers' request for advice on:

    a practical ways to alleviate pressing issues of service access arising from pay disparities in parts of the health sector workforce, particularly aged care; and

    b longer-term ways to sustainably and affordably address similar issues in other parts of the health workforce.

Context

MOGSSER consideration

s9(2)(f)(iv)

What is pay (dis)parity?

4. Not all differences in pay reflect parity issues, even when job titles are the same. Some are the result of wider work and labour market factors that legitimately influence pay. These include:

    a on-job factors, for example:

        i working conditions: Is shift work involved? Is travel involved? How flexible are the hours? How stressful is the work environment? What opportunities are there for small breaks during the day? How normal is it to work overtime? What "perks" are offered by the employer? What is the progression and development pathway?

        ii skills and experience required: How much study is required to get and maintain employment? What prior work experience is required? How much supervision is available on the job? How much discretionary or expert judgement is involved? Will the employee be taking high-stakes decisions?

    b contextual factors, such as the cost or desirability of living in different locations and working in different sectors or workplaces. Jobs in locations that offer limited amenity value (in terms of schools, public transport, shops and other services,

natural beauty etc) and/or very high house prices might need to offer higher wages than similar jobs in locations with more amenity value or lower house prices.

5. Differences in pay due to these things are not pay disparity s9(2)(f)(iv) these are all differences in "work" (defined broadly to include work environment) and do not arise solely because of who the employer is. Differences of this kind will exist even in a fair and well-functioning health labour market. If health providers are not allowed to vary wages to reflect them, then they will struggle to attract employees to less attractive or more demanding roles; or else will pay more than they need for more attractive or less demanding roles, reducing their ability to invest in patient care.

6. A reliable signal of pay disparity s9(2)(f)(iv) is when health employees systematically turn down jobs with one employer in favour of similar but higher-paid jobs with another employer. This may indicate that differences in wages are not adequately compensated for by other differences in the work.

7. **This kind of pay disparity has emerged over time across the health sector:** the primary and community care sector struggles to pay employees a wage that retains them, because the government-owned part of the system offers higher rates of pay for work that can be done by the same staff. Causes vary, but include that:

   a While wage pressure is felt across the system due to staff shortages, faster wage growth has been possible in the formerly DHB-employed workforce because DHBs have historically directed more funding uplifts to their delivery arms (hospital and specialist services) than to primary and community services.[1]

   b Where DHBs directly employed staff, they set wages with unions through bargaining. Where they purchased services from external providers, they did not set the wages offered by those providers (or their subcontractors). Funding uplifts to primary and community services, and increases in contract prices, have not always resulted in wage increases for staff working in contracted services. (Though as noted at paragraph 30.d, this is not categorically a bad thing.)

   c The government-employed health workforce is highly unionised and Multi-Employer Collective Agreements (MECAs) have been the norm. DHBs, and now Te Whatu Ora, act as a single employer across the workforce, resulting in a centralised employment relations environment with powerful union organisation. The funded sector workforce is less consistently unionised, with more single-employer or regionalised employment agreements across thousands of employers which are private businesses and NGOs. This gives employees and unions less organised power at the bargaining table.

8. The true level of pay disparity is hard to ascertain, given the limited amount of workforce data available. This reflects the disparate nature of the employers within the funded sector, and the difficulty in obtaining detailed, live information from these employers. s9(2)(f)(iv)
s9(2)(f)(iv)

[1] The existence of the Māori and Pacific Provider Development Funds in part reflects the reality that providers in these sectors have not been sustainably funded by DHBs, requiring the centre to provide additional "top up" funding to maintain supply.

9. Existing disparities will be exacerbated by the settlement of health sector pay equity claims, including the current nurses' claim which also covers healthcare assistants (HCAs).

10. s9(2)(f)(iv) [redacted]

Government's interests in resolving pay parity in health

11. Government wants all labour markets to operate competitively and fairly, with power balanced between employers and employees. This is ethically desirable and improves efficiency and productivity, helping everyone to benefit from growth. The introduction of Fair Pay Agreements has this general goal in view.

12. When it comes to the health system, Government has an additional interest because it is reliant on being able to purchase services from a thriving and sustainable market of primary and community care providers. Because of this, Government's interest in addressing pay disparities is tightly linked to an interest in ensuring sustainable models of care and contractual arrangements in the funded health sector.

13. Te Whatu Ora reports that providers are talking or about or carrying through with service cuts as a result of workforce supply issues. Staff recruitment and retention issues underlie these problems. Pay disparity is not the only driver of staff shortages – other factors include a very tight labour market (exacerbated by closed borders through much of the last two years and changes to immigration settings) and the impact of COVID-19. But the difference in pay that Te Whatu Ora can afford, compared to primary and community sector employers, means that shortages impact the primary and community sector more acutely than the hospital and specialist sector.

14. Te Whatu Ora advise that the gap between government-employed and funded sector healthcare workers has historically been much smaller than it is now, in the range of 0-3% between 2011 and 2017. We note this is difficult to verify given the limited data available. Small differences are sustainable for the reasons outlined in the previous section of this paper. A significant widening of the gap will contribute to the workforce supply issues, threatening service sustainability.

15. s9(2)(j) [redacted]

16. Pay disparities also affect the Crown's compliance with Te Tiriti o Waitangi. Many Kaupapa Māori services are delivered by funded sector providers who are experiencing delivery challenges as a result of workforce supply issues. The WAI2575 report identified that Kaupapa Māori providers are disadvantaged by primary care policies that

do not fund NGO and primary care services to meet the equivalent of government-employed MECA wage increases.

17. While pay parity 'claims' are not legal claims with a statutory basis (in contrast to collective bargaining and pay equity), addressing them will help the government to achieve a more sustainable health workforce and support its objective to shift the focus of healthcare provision out of hospitals and into the community. There will be costs involved in doing so, and achieving this goal needs to be balanced against other priorities.

Framing your policy goals

18. You have indicated that you want to be able to swiftly announce measures (possibly interim) to address pay parity in the aged care sector in the short term, while also committing to a process to sustainably resolve wider issues.

19. We strongly suggest framing any such initiative as being about **helping Te Whatu Ora solve its immediate issues with continuity of supply, while also establishing it (and Te Aka Whai Ora) in the medium term to purchase sustainably from a thriving market,** rather than "addressing pay parity". s9(2)(g)(i)
s9(2)(g)(i)

20. We propose instead characterising the issue as being about resolving historical issues with government procurement and commissioning practices that have resulted in pay disparities, to enable sustainable employment and therefore sustainable supply in the new system. The Ministry of Health, Te Whatu Ora and Te Kawa Mataaho support this reframing.

21. We also recommend considering **nursing within residential care** (including aged care, hospice care and residential mental health and addiction care) instead of just aged care because Te Whatu Ora is already reporting workforce supply difficulties here with impacts on service access that generate high flow-on costs for other parts of the system. This is because patients unable to be accommodated in primary and community residential care settings typically end up in hospital.

22. This framing also:

    a leaves room for government and providers to explore non-financial solutions to supply issues in the medium term, for example through removing any unnecessary regulatory barriers to business model changes that might enable efficiencies.

    b allows for the possibility that some current issues with supply may be resolved through existing pay equity or Fair Pay Agreement processes or other market changes, without requiring a "pay parity response".

s9(2)(g)(i)

Proposal

23. The Treasury's first best advice is that you need more time to understand the value and consequences of investing in this intervention and to prioritise it against other initiatives, underpinned by a health workforce strategy and with the ability to make trade-offs against your other priorities across government. s9(2)(f)(iv) s9(2)(f)(iv)

24. However, if you decide to fund an urgent response for residential care within the current financial year, we propose:

    a a relatively modest envelope to address pressing service access issues related to nursing in **residential care** in the short term, which could be announced and disseminated within the current financial year; and

    b a larger envelope to address **remaining service access issues across wider workforces where pay parity issues have been identified**. This could be announced at any time, and a process to agree its distribution could begin when the residential care process was complete (probably early 2023). s9(2)(f)(iv) s9(2)(f)(iv)

25. It is difficult to cost a credible intervention, given the workforce data available for the thousands of employers that constitute the funded sector and the inherent judgement involved in prioritising how an uplift is best allocated. We suggest a funding envelope influenced by previous cost estimates on pay parity (noting aforementioned limitations) but balanced against affordability constraints. This could be in the range of $30-40 million per annum. Further advice could be provided by the Ministry of Health, working with Te Whatu Ora, to joint Ministers within coming weeks that outlines what would be achieved within an envelope of that size. A Cabinet paper shortly afterwards would likely be required.

26. Having identified the quantum of funding and the scope of its application (i.e. the issues it was seeking to address), we then recommend that Ministers or Cabinet should charge Te Whatu Ora and Te Aka Whai Ora to determine, in consultation with unions (and any other employee groups) and employers (and peak bodies where applicable), how to best allocate that funding to address the issues in scope, within a predetermined timeframe. We recommend that other stakeholders, including representatives of Māori providers and workforce, are similarly engaged – including Iwi-Māori Partnership Boards.

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

28. We recommend the Ministry of Health monitors this process and advises Ministers on Te Whatu Ora's proposed approach to applying funding, in consultation with the Treasury and Te Kawa Mataaho. For the interim solution (limited to residential care), funding could be disbursed once the Minister of Health and the Minister of Finance had endorsed the final plan for its allocation.

Benefits and risks

29. Addressing workforce supply issues in the funded health sector enables primary and community providers to sustain and, over time, potentially expand service provision. As well as meeting public expectations of the availability of care, this reduces the burden on hospitals: directly and immediately, in the case of residential care providers; and indirectly over time through better, faster access to primary and community care, which also promotes equity goals. A thriving primary and community care sector is central to the government's health reform objectives, saving money and lives over the long term.

30. Benefits of the particular approach outlined in this paper to addressing supply issues include that it:

    a is proactive and policy-led, rather than reactive and claims-based, putting government in the driving seat in terms of policy choices (and also emphasising the distinction between this and the pay equity process). Other pay-related claims through other legislative processes (e.g. pay equity, Fair Pay Agreements) will continue as usual.

    b will give government certainty over its costs (and the ability to scale up its medium-term response if needed with minimal risk or effort).

    c will allow Te Whatu Ora to focus on where it has the most pressing problems with continuity of service, rather than on where the union or employer voices are loudest or best-organised.

    d is flexible enough to fund more than one type of solution on the ground. Employers and employees will often have better information than the centre about how best to address their specific supply issues – for example, for a given employer, it may be that hiring an additional non-clinical staff member to take administrative work off nursing staff will make a bigger difference to retention of nurses than a pay increase.

    e would not commit the Government to maintaining any particular relativities within the health workforce. It would instead be the responsibility of Te Whatu Ora and Te Aka Whai Ora to manage their procurement and commissioning in a way that maintained a sustainable provider market over time, such that problematic disparities did not recur.

s9(2)(g)(i)

s9(2)(g)(i)

Other options

32. The approach above contains some optionality for Ministers, including the quantum of funding on offer, the scope of issues to be addressed via each envelope, and any specifications about the process that Te Whatu Ora must follow with other interested parties (though we recommend that the latter be left open).

s9(2)(g)(i)

s9(2)(g)(i)

Funding options

34. As noted, the Treasury's first best advice is to defer investment to Budget 2024. However, if you decide to act now, the funding options are:

    a **Budget 2023 allowances.** Vote Health received two years' worth of funding increases at Budget 2022 in the first multi-year funding arrangement for Health, as part of a transition to three-year Budgets from Budget 2024. Entities have been repeatedly told by Ministers that there will be no new money available for Health at Budget 2023. Varying from this line will inevitably impair the credibility of the new funding arrangements for Health and in order to make an investment that will have a tangible effect on workforce supply, will likely have a substantive impact on the remaining funding available in the Budget 2023 allowance for other initiatives.

    b **Outside Budget allowances.** Addressing pay parity is a discretionary policy decision and there is limited rationale for managing it outside allowances.

    c **Between-Budget contingency.** This initiative does not meet the criteria of being urgent and unexpected. This quantum of funding would place the Between-Budget Contingency under significant pressure to manage further requests for the rest of the financial year.

    d **Reprioritisation from contingencies.**

        i *The Health Workforce Development tagged operating contingency of $31 million over four years established at Budget 2022.* Work is underway on the best allocation of that money before it is drawn down. This could be reprioritised for partial funding of the initiative proposed in this paper, however, it would only contribute a small portion of the total cost. It also has an opportunity cost as the workforce development initiatives Te Whatu Ora is seeking to propose (which are aimed at addressing the long-term issues of workforce under-supply) could not be funded through another means, so Ministers would have to consider the trade-off between these options.

        ii *The Budget 2022 cost pressure contingencies ($520.793 million from 2022/23 onward and $1297.191 million[2] from 2023/24 onward).* Te Whatu Ora advise that cost pressure and rebase funding provided to Vote Health at Budget 2022 has already been fully budgeted to address other pressures and provide an appropriate reserve for other risks that will emerge. However, we still have limited visibility of the allocations and assumptions underpinning Te Whatu Ora's interim budget and the scale of risk associated with it. This information

[2] Note this number is for all Vote Health, not just Te Whatu Ora.

was not available during the Budget 2022 process, resulting in the decision to hold a portion of cost pressure funding in contingency pending further information. Te Whatu Ora has recently provided an interim submission on drawing down this funding which we are currently working through. Whilst we recognise there are a number of significant pressures and risks facing Te Whatu Ora's budget, early analysis of the information provided has not generated the detail necessary for us to understand the implications and trade-offs Te Whatu Ora would face in managing further costs, such as this initiative, from baselines.

e **The Budget 2023 allowance for costs in 2022/23 and baseline reprioritisation for costs in 2023/24 and outyears.** Funding for the 2022/23 financial year could be charged against the Budget 2023 allowance, Te Whatu Ora has already committed that funding in their interim budget, noting the caveats above. Work by Te Whatu Ora on the allocation of funding from 2023/24 onward is yet to occur, so they would have more time to plan for accommodation of this intervention baselines. This is still likely to put pressure on Te Whatu Ora's ability to deliver a balanced budget without service cuts, so Ministers would need to consider the trade-off between this investment and other existing activity which may be affected.

35. At this point we recommend:

    a Reprioritising the Health Workforce Development contingency of $31 million over four years for partial funding of this intervention

    b Not signalling now how you would fund the remaining quantum (possibly $90-130 million over the forecast period). This decision could be sought when the Ministry of Health, working with Te Whatu Ora, report back with further information about how the funding envelope would be invested. At that stage, we hope to have a clearer picture as to whether it could be managed within baselines. It would otherwise likely be a pressure on the Budget 2023 allowance.

36. As noted, we think that non-urgent pay parity concerns outside residential care could be addressed via a process to be undertaken from (probably) early 2023, possibly linked to a pre-commitment of Budget 2024 allowances. If desired, funding could be announced between now and Budget 2024, as a specific quantum, an indicative range, or (we would suggest) just a general intention to fund (with no quantum indicated). The desirable quantum could be confirmed during 2023/24, based on updated information about outstanding supply issues (which might shift over the next year as existing pay equity and Fair Pay processes play out).

37. Any pre-commitment against Budget 2024 would have a corresponding impact on the size of the Budget 2024 allowance available for other initiatives in Health. It would not allow Ministers to trade off pay parity goals with other Health priorities. Any non-contractual commitment made before the 2023 general election could also be revoked by a different incoming government.

Next steps

38. Subject to your decisions on this paper, we suggest that you commission the Ministry of Health and Te Whatu Ora to come back to you as soon as possible with more accurate costings and a timeline for implementation, in consultation with the Treasury, including detail of the role Te Aka Whai Ora wants to take on as co-commissioner of services. The timing of this report-back may be different for the interim intervention

targeted at residential care and the longer-term intervention for other parts of the sector.

39. The next meeting of MOGSSER is 10 August 2022. The Ministry of Health can support you to give a verbal update on this work at that meeting if you desire. Te Kawa Mataaho will also adjust its forthcoming pay parity update paper to MOGSSER to reflect any decisions you make on the present paper.

Reference: T2022/1759 SH-2-7
Date: 9 August 2022
To: Minister of Finance (Hon Grant Robertson)
Deadline: 4 p.m., Wednesday 10 August 2022

Item 4: Pay Parity and workforce supply in health sector management (page 24-37 of meeting pack)

Summary of the item

The Treasury has recently responded to a request for advice (T2022/1637) from you and the Minister of Health on how to address urgent supply issues arising from pay parity problems in residential care, ahead of a longer-term process to address similar issues in other delivery areas. You are currently considering the advice. We understand you intend to seek Cabinet support for a funding proposal; you may want to test your proposed funding approach with your MOGSSER colleagues.

Briefing points on the item

Our advice emphasised (supported by PSC, the Ministry of Health, and Te Whatu Ora) that the central issue in health pay parity is not a claims-based ER issue (as in Pay Equity), but rather the ability of Te Whatu Ora to commission sustainably from the funded sector, by paying for services at a price level that ensures their continued supply given the labour market in which the providers operate. Because prices for labour in the government-employed health workforce have increased rapidly (and will increase further as Pay Equity claims are settled), providers in the funded sector are facing wage pressures to retain staff. The price paid by Te Whatu Ora for their services does not always enable providers to meet these pressures, and some are withdrawing supply as a result. In the case of residential care, any withdrawal of supply in the funded sector increases demand for hospital-level care, so it is more cost-efficient to address the issue at source.

From a government policy perspective, this is an issue of government under-funding given the state of the labour market, and should in our view be addressed as such. We think that costs can best be managed by agreeing a quantum upfront and letting Te Whatu Ora determine its distribution in consultation with providers and unions/employees, rather than creating a negotiations-based process that may lead to unforeseen or uncontrollable funding obligations for government. A negotiations-based process, requiring the agreement of providers and unions/employees to the ultimate funding distribution, will likely lead to protracted timeframes as with Pay Equity claims; giving Te Whatu Ora the responsibility for determining a solution is not only a better in-principle fit given the nature of the issue, but will also allow an intervention to be implemented quickly.

In light of the above, we recommend that you:

- Note the value of understanding concerns about health pay parity, from a government policy perspective, as being about ensuring that funding levels enable continuity of supply to government in a critical market, rather than a claims-based or ER-focused issue.
- Note the need to ensure that any public commitments made to “pay parity” do not, in combination with legislative commitments to pay equity, result in an ongoing ratcheting-up of wages across health, but are instead focused on what is required to sustain supply in a well-functioning labour market.

- Note the value of addressing health pay parity concerns via setting a funding envelope upfront for distribution.
- Test your proposed funding approach to these issues with your MOGSSER colleagues ahead of a probable Cabinet process.

<table>
<tr><td>Title of paper</td><td>Addressing the impacts of pay disparities in the health funded sector</td></tr>
<tr><td>Minister and agency</td><td>Hon Andrew Little, Minister of Health
Ministry of Health</td></tr>
<tr><td>Description</td><td>This paper seeks to set funding aside in a tagged contingency to improve pay relativities between funded sector and Te Whatu Ora employed nurses and kaiāwhina.</td></tr>
<tr><td>Comments</td><td>The Treasury supports this paper, s9(2)(g)(i)
s9(2)(g)(i)
t</td></tr>
<tr><td>Consulting Minister’s due date</td><td>08 November 2022</td></tr>
<tr><td>Cabinet or Cabinet Committee</td><td>SWC (expected 16 November 22).</td></tr>
<tr><td>Fiscal implications</td><td>The paper seeks to establish a tagged contingency of $840 million over the forecast period as outlined below:
<table>
<tr><td></td><td colspan="5">$million – increase</td></tr>
<tr><td></td><td>2022/23</td><td>2023/24</td><td>2024/25</td><td>2025/26</td><td>2026/27 & outyears</td></tr>
<tr><td>Reducing pay disparity for funded sector health workers - Tagged operating contingency</td><td>40.000</td><td>200.000</td><td>200.000</td><td>200.000</td><td>200.000</td></tr>
</table>
This is proposed to be charged outside Budget allowances, meaning there will be a corresponding impact on OBEGAL and net debt.</td></tr>
</table>

	s9(2)(g)(i)
Recommended action	**We recommend you support this paper** s9(2)(g)(i) s9(2)(g)(i)

Addressing the impacts of pay disparities in the health funded sector
Hon Andrew Little, Minister of Health
Treasury contact: Justin Alsleben s9(2)(k)
Sign out contact: Jess Hewat s9(2)(g)(ii)

Description: This paper seeks Cabinet agreement to set aside funding in a tagged contingency to improve pay relativities between funded sector and Te Whatu Ora employed nurses and kaiāwhina.

Comments: The Treasury supports this paper, s9(2)(g)(i)
s9(2)(g)(i)

Fiscal Implications: This paper seeks to establish a tagged contingency of $840 million over the forecast period as outlined below:

	$million – increase				
	2022/23	**2023/24**	**2024/25**	**2025/26**	**2026/27 & outyears**
Improving pay relativities for funded sector health workers -	40.000	200.000	200.000	200.000	200.000

Tagged operating contingency					

This is proposed to be charged outside Budget allowances, meaning there will be a corresponding impact on OBEGAL and net debt.

s9(2)(g)(i)