

# The Treasury

## Advice on Public Sector Pay Adjustment (PSPA) Information Release

March 2023

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- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
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**AIDE-MEMOIRE**

**Public Service Pay Adjustment: consideration by Cabinet 3 October**

**Date:** 30 September 2022 **Security Level:**

**Minister:** Hon Grant Robertson, Minister of Finance

Hon Chris Hipkins, Minister for the Public Service

**Report No:** 2022/0220

**Purpose** To provide Ministers with supporting information on the legal, fiscal, and employment relations issues that sit around the proposed Public Service Pay Adjustment (PSPA) due to be discussed by Cabinet on Monday 3 October.

**Date of meeting** 3 October 2022

**Minister** Minister of Finance, Minister for the Public Service

Cabinet will be asked to agree:

- That formal negotiations commence with the New Zealand Council of Trade Unions (NZCTU) and unions for a PSPA covering the Public Service, state and state-integrated schools, kindergarten teachers, the health sector and other Crown agents
- Proposal**
- Fiscal parameters for the PSPA
  - A process for formal engagement with the NZCTU affiliates on the PSPA
  - Other parameters for the PSPA

We recommend that you discuss the implications of the proposal with Cabinet.

The PSPA proposal challenges usual policy and bargaining settings, it would also bring substantial cost. There are risks to the successful delivery of a PSPA that should be considered before deciding whether to proceed.

**We consider that further legal advice is necessary on the detail of the proposed process**

This is a fast-moving process. The legal advice to date was on the basis of a somewhat different proposal to what is now in the Cabinet paper. Te Kawa Mataaho Public Service Commission will seek further expert legal advice on the design and details of the proposal to ensure the process is managed in a way that mitigates the legal risk as much as possible.

**Key issues** [36]

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[36]

Cabinet may wish to seek the views of the Attorney-General.

**The Cabinet paper lays out the total fiscal impact, but doesn't detail the likely flow on costs**

The Cabinet paper lays out the direct fiscal implications of the PSPA proposal and notes that there might be spill-over into wages in the wider public sector and funded sector. We think a high degree of spill-over is almost certain given the current high wage inflation expectations, the large share of the workforce that the PSPA would cover and the proposal that a remuneration approach for the funded sector would happen in parallel to the PSPA process.

[33]

The Cabinet paper lays out estimates of the likely impact that higher public sector wage inflation would have on inflation and interest rates. One of the channels through which higher public sector wage inflation leads to higher inflation and interest rates is by attracting staff from the other sectors, including local government and the private sector. With skill shortages, for both skilled and unskilled workers at record highs, these sectors will likely come under increased pressure, potentially leading to more private sector wage inflation.

**The offer set out in the Cabinet paper for modelling purposes [38]  
may not be accepted**

[33], [38]

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[33], [38]

**Funded sector**

We note the comment in the Cabinet paper that a parallel process to address the funded and contracted sector would create significant further fiscal risks and other challenges. We also note that it may be difficult to get agreement from the NZCTU and affiliates to go ahead with the PSPA process if there is not a parallel and commensurate process for this sector.

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Our advice is that Ministers raise these key issues with Cabinet on Monday 3 October to assist with its deliberations.

[33], [38]

**Our advice**

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**Manager**

Alex Chadwick; Deputy Commissioner, Workforce, Employment Relations, and Equity

Tim Hampton, Chief Advisor Executive Leadership Team, Treasury