



Te Kawa Mataaho

Public Service Commission

20 December 2024

[Honorific] [first name] [last name] post-nom]

[Position]

[Agency]

By email: [Email]

Tēnā koe [first name]

Condition of delegation relating to personnel costs and tenure-based progression systems in bargaining

As we prepare to break for a well-earned Christmas and summer holiday, I wanted to formalise my expectations regarding important remuneration aspects of bargaining which we have touched on at Public Service Leadership Team meetings over the last month.

I'm conscious that much of what I'm setting out in this letter will be known to you. However, following a range of discussions I thought it timely to reiterate some key points that I want you to be alert to.

The current fiscal climate has brought the unaffordability of many existing departmental remuneration structures into sharp relief. Tenure-based pay progression is the most acute: even without Budget guidance, agencies are finding that it is unaffordable to increase pay ranges in addition to the increases generated by existing tenure-based progression. This mismatch between union demands and agencies' ability to pay, is testing relationships and bargaining dynamics.

One aspect which is often overlooked in the media and by unions is that tenure-based pay progression does provide a clear and demonstrable pay increase for staff (other than for those who have reached the top step of their pay band). Put simply, any movement is an increase and should be treated as such. I expect that you will reflect and promote this viewpoint in your bargaining.

For those of you who are considering pay band movements or other enhancements to existing terms and conditions, I ask that you are clear about what your agency is getting in return. In particular, what payback is achieved from the perspective of the agency and the broader system. Also, I expect chief executives to consider how the terms of any settlement may impact on the system, for example by setting a precedent that other agencies may feel pressure to follow.

To help operationalise the expectations in the Government Workforce Policy Statement regarding remuneration systems, and to align with Treasury's guidance related to growth in personnel costs, I am issuing some further conditions on my bargaining delegation to you. These are set out in the attached appendix to this letter and are issued in accordance with clause 6 of Schedule 3 of the Public Service Act 2020 and section 80 of the Act.

Please do not hesitate to get in touch with our Workforce team if you have any questions.

Nāku noa, nā

Sir Brian Roche KNZM
Te Tumu Whakarae mō Te Kawa Mataaho
Public Service Commissioner, Head of Service

Attachment:

1. New condition of delegation relating to personnel costs and tenure-based progression systems in bargaining



Te Kawa Mataaho

Public Service Commission

[Designation if relevant and] Chief Executive

[Agency name]

New condition of delegation relating to personnel costs and tenure-based progression systems in bargaining

The Public Service is moving into a concentrated period of bargaining, alongside the release of a new set of expectations and Treasury guidance which establish broad parameters relating to growth in personnel costs. These parameters will impact on bargaining strategies and settlements.

As you know, I have delegated my role's functions and powers to negotiate collective agreements to departmental chief executives under clause 6 of Schedule 3 of the Public Service Act 2020. I may also give directions regarding or set conditions on that delegation under sections 80(2) and (3) of the Act.

This letter confirms the imposition of the following new conditions that will apply to your original delegation dated 2 August 2024 and will apply alongside the conditions contained in that delegation. **You** will ensure that the growth of your department's personnel expense should not exceed forecast Consumer Price Index, and there are no new introductions of, or extensions made to, tenure-based pay progression models.

This additional condition will apply from and including 20 December 2024.

This supports the interpretation of the Government Workforce Policy Statement (the Statement) and will inform your bargaining approach to personnel costs and tenure-based remuneration.

This condition is issued in accordance with section 78 and section 80 of the Public Service Act 2020, under clause 6 of Schedule 3.

All bargaining will continue to be undertaken in good faith and consistently with the Employment Relations Act 2000.

The Government Workforce Policy Statement

The Statement covers a range of workforce matters including remuneration, negotiation of employment agreements, capacity and composition of the workforce, pay equity and diversity and inclusion, and data and information.

Departments as named in Schedule 2, Part 1 of the Public Service Act 2020, including any hosted Departmental Agencies and Interdepartmental Executive Boards, and Crown agents as named in Schedule 1 Part 1 of the Crown Entities Act 2004 must **give effect** to the Statement, including the expectations and priorities contained within it.

Other organisations in the public sector, as named in Schedule 1 Part 2, Schedule 1 Part 3, and Schedule 2 of the Crown Entities Act 2004, Non-Public Service Departments (New Zealand Defence Force, New Zealand Police, and Parliamentary Counsel Office), all School Boards of Trustees, and Tertiary Education Institutions as defined by "institution" in Section 10 (1) of the Education and Training Act 2020 **must have regard** to the Statement.

In addition, monitoring departments should ensure that Crown entities, which are required to give effect to or have regard to the Statement, are meeting those expectations within their workforce, pay equity and bargaining strategies.

The Statement outlines the Government's expectations that the Public Service will deliver high performing, trusted and efficient public services. To achieve this, the Statement covers four priority areas for employment relations:

- that employment outcomes are fiscally sustainable and respond to the current fiscal context and any current budget advice
- that employment conditions and remuneration settings support a high performing public sector and delivery of effective, efficient, and responsive services
- that the public sector has a workforce that is responsive to the needs of all New Zealanders, and
- that agencies manage their workforce size and composition, including to reduce expenditure on consultants and contractors.

Agencies should be mindful of the expectation that their bargaining strategies should look to proactively advance changes that will better support delivery on the Government's Targets and Priorities.

The Government's expectation is that agencies should seek to deliver all employment relations outcomes, including collective bargaining and remuneration adjustments, from within their existing baselines. Any Budget initiatives seeking additional funding for workforce/bargaining issues should feature early engagement with both the Public Service Commission (the Commission) Employment Relations Team and the Treasury. Any such initiatives will be assessed for consistency with the Statement.

Expectations on bargaining costs and pressure on growth in personnel costs

The Government has outlined its expectations for the Public Service to operate within existing baselines and for total workforce increases to be within forecasted inflation, recognising that some frontline workforce might be supported by budget contingencies or increases to baseline.

Treasury Budget guidance, approved by the Minister of Finance, sets the expectation that growth of departments' personnel expense should not exceed forecast Consumer Price Index (as defined by Treasury). This limitation is intended to mitigate the impact on services that would be caused by reprioritisation to fund excessive personnel cost growth. Treasury Budget guidance also sets out that new funding received by agencies for frontline staff (e.g. new teachers, health workforces, or police) does not count towards the calculation of personnel expenses growth.

In this context personnel spend includes all direct costs caused by changes in numbers of staff, remuneration as well as flow on costs such as ACC and superannuation, allowances and other payments made to staff.

Expectations in relation to tenure-based progression systems

The current fiscal climate has brought the unaffordability of many existing departmental remuneration structures into sharp relief. Step-based remuneration systems operating with tenure-based pay progression are the most acute: even without budget guidance, agencies are finding that it is unaffordable to increase pay ranges in addition to the existing tenure-based progression.

As part of agencies' preparation for collective bargaining, I expect that agencies will be examining their remuneration system's design and operation, and whether it aligns with Government expectations including affordability and supporting a high performing Public Service. The Minister for the Public Service has expressed concerns about the growth in personnel costs arising from pay progression systems which cannot be limited through employer discretion. I have taken this into account in the light of the Statement and it is my expectation that agencies do not make further enhancements to tenure-based progression systems.

Therefore, the expectation is that for agencies with collective agreements in upcoming bargaining, there will be no introduction or extensions made to tenure-based pay progression models. While the removal of tenure-based progression may be impractical in the current fiscal environment, I expect agencies to demonstrate how the long-term costs of remuneration structures are intended to be managed, and this is unlikely to include enhancement or entrenchment of such systems. As such, chief executives no longer have delegated authority to agree such changes and any proposal to do so would need to revert back to me as Commissioner through the approval process.

If such changes are required, then this will be required to form part of the consultation with the Employment Relations team as part of the approval considerations for bargaining strategies and proposed settlements, and may be approved if they are consistent with the Statement. Therefore, I anticipate that agencies' bargaining strategies will reflect this along with how agencies intend to move towards a remuneration model that meets both the Statement and addresses the fiscal pressures by re-directing the allocation of increases.

I recognise that tenure-based progression has been seen as a support for reducing unjustified pay gaps through removing discretion in remuneration decisions. Agencies will, therefore, need to consider how to mitigate the risk where discretion is applied in pay increases if tenure-based progression is being removed or replaced.

Support and advice

The Employment Relations Team will continue to work closely with your team to support you to develop your approach to employment relations to achieve system and agency goals consistent with these expectations. The Commission will not generally approve bargaining strategies or Terms of Settlement that are at odds with the conditions on the delegation as set out above, or which are otherwise inconsistent with the Statement.

As always, the Employment Relations Team is available to you for advice and support as required at employmentrelations@publicservice.govt.nz.