



Cabinet paper for lodging: Implementing a minimum living wage rate for cleaners, caterers and security guards working under Public Service contracts

Date: 4 August 2021

Security Level: IN CONFIDENCE

Report No: 2021/0210 (Te Kawa Mataaho)

2122-0412 (MBIE)

Contact: Dale Farrar – Deputy Commissioner,
Workforce, Equity and Talent,
Te Kawa Mataaho

Laurence Pidcock – General Manager,
Government Procurement, MBIE

Telephone: 9(2)(a) privacy

9(2)(a) privacy

	Actions Sought	Due Date
Hon Chris Hipkins, Minister for the Public Service	Agree to lodge the attached Cabinet paper for consideration at the 12 August 2021 GOV meeting.	5 August 2021
Hon Stuart Nash, Minister for Economic and Regional Development		

Enclosure: **Yes**

Minister's Office Comments

Comments:	
Date returned to Te Kawa Mataaho and MBIE:	

Recommended Action

We recommend that you:

- a **note** that the attached final Cabinet paper, *Implementing a minimum living wage rate for cleaners, caterers and security guards working under Public Service contracts*, has been updated to respond to minor feedback received through Ministerial consultation
- b **note** that the Treasury has proposed that Cabinet decisions on this work be delayed until after the Ministry of Business, Innovation and Employment has developed a formula to set a government rate that anticipates future increases to the Living Wage
- c **note** that Te Kawa Mataaho Public Service Commission and the Ministry of Business, Innovation and Employment consider there is relatively low risk in seeking Cabinet agreement to these policy proposals ahead of the development of the formula
- d **agree** to lodge the Cabinet paper by 5 August 2021 for consideration at the 12 August 2021 meeting of the Cabinet Government Administration and Expenditure Committee.

☒ Agree/ ☐ Disagree



Hon Chris Hipkins
Minister for the Public Service

Hon Stuart Nash
Minister for Economic and Regional Development

Cabinet paper for lodging: Implementing a minimum living wage rate for cleaners, caterers and security guards working under Public Service contracts

Purpose of Report

- 1 This report seeks your agreement to lodge the draft Cabinet paper *Implementing a minimum living wage rate for cleaners, caterers and security guards working under Public Service contracts* for consideration at the 12 August 2021 meeting of the Cabinet Government Administration and Expenditure Committee (GOV).

We have made minor changes to the attached Cabinet paper to reflect feedback from Ministerial consultation

- 2 The draft Cabinet paper was circulated for Ministerial consultation on 14 July 2021. We have made three minor changes to the attached final paper to respond to feedback from Ministers or agencies:
 - 2.1 in response to a query from the Department of Prime Minister and Cabinet (DPMC), we removed a footnote referring to a study conducted by Responsible Wealth, as this is an advocacy group and not a peer-reviewed journal
 - 2.2 in response to feedback from the Ministry of Social Development (MSD), we made minor amendments in paragraph 16 to the description of changes MSD has already made to its contracts for security guards
 - 2.3 to clarify the timeline for implementation, we added recommendation 6, which notes that the Ministry of Business, Innovation and Employment (MBIE) will prepare detailed guidance by 1 November 2021 to support departments to implement this policy.
- 3 DPMC noted that the estimated costs to government of approximately \$65.9 million over four years appeared unusually high, since this indicates a roughly 25 percent increase in government's current spend on cleaning, catering and security services contracts. While a 25 percent increase may appear high, it is within the range of initial impact scenarios that MBIE developed for this work. In early 2021, MBIE surveyed core Public Service departments on the increase in annual contract values that they estimated would be required to implement this policy. In most cases, departments developed their estimates in consultation with contract providers. MBIE developed three impact scenarios based on departments' estimates of these costs.¹

- 4 9(2)(j) prejudice to negotiations
-
-
-

We seek your confirmation around whether you still intend for this Cabinet paper to be considered at the 12 August 2021 GOV meeting

- 5 As you know, MBIE is carrying out further work to develop a formula to set a government rate that can anticipate future increases to the independently calculated Living Wage [*Te Kawa Mataaho* 2021/0190 and MBIE 2122-0058 refer].

¹ The three impact scenarios are: 5% increase in annual contract value (the lowest estimated increase across all agencies); 14% increase in annual contract value (the average estimated increase across all agencies); and 30% increase in annual contract value (the highest estimated increase across all agencies). MBIE can provide Ministers with further information if required.

- 6 The Treasury has advised that seeking Cabinet agreement to the living wage policy proposals prior to the development of this formula could create risks given the potential complexity of that work. Treasury has therefore proposed that Cabinet decisions be sought at a later date once the formula has been completed.
- 7 We seek your confirmation around how you wish to sequence Cabinet decisions on this work. The key options are:
 - 7.1 **Option One** – seek Cabinet agreement to the proposals in August 2021, directing MBIE to develop the formula as part of implementation (*as currently planned*)
 - 7.2 **Option Two** – seek in-principle Cabinet agreement to the proposals in August 2021, then subsequent Cabinet agreement to the final formula prior to 1 December 2021
 - 7.3 **Option Three** – delay Cabinet decisions to a date prior to 1 December 2021, once the final formula has been completed.
- 8 Our shared view is that there is relatively low risk in seeking Cabinet agreement to the policy ahead of the completion of the formula, as the formula will be developed with the intention of aligning with our estimated costs of \$65.9 million over four years, and is not proposed to take effect until 1 September 2022. We therefore recommend proceeding with Option One.

Next steps

- 9 If you agree with Option One, we seek your agreement for the attached Cabinet paper to be lodged by **5 August 2021** for consideration by GOV on 12 August 2021 and by Cabinet on 16 August 2021.
- 10 MBIE is working with the Treasury to develop the formula to set a government rate and consider implementation matters including:
 - 10.1 how far ahead in time a government-set rate, published by New Zealand Government Procurement, should project a rate for agencies
 - 10.2 a mechanism, as appropriate, to potentially realign the government-set rate to anticipate changes to the independently calculated Living Wage over time.
- 11 MBIE will consult on the draft formula with a range of stakeholders, including the Living Wage Movement and select industry organisations. MBIE and Te Kawa Mataaho Public Service Commission will provide you with further advice on the formula once that work is completed, well in advance of the planned commencement date of 1 December 2021.