



**TE TAI ŌHANGA  
THE TREASURY**



**Te Kawa Mataaho**  
Public Service Commission

**Joint Te Kawa Mataaho/Treasury Report: Pay Adjustment proposal**

**Date:** 8 June 2022  
**Security Level:** SENSITIVE

**Report No:** 2022/0116, T2022/1279

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	Actions Sought	Due Date
Hon Grant Robertson, Minister of Finance		None
Hon Chris Hipkins, Minister for the Public Service		None

Enclosure: Yes

**Minister's Office Comments**

Comments:

Date returned to Te Kawa  
Mataaho:

## Executive Summary

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- 1 On 27 May 2022, the New Zealand Council of Trade Unions (NZCTU) wrote to the Minister of Finance and Minister for the Public Service proposing a new approach to pay negotiations across the public sector. As requested, Treasury and Te Kawa Mataaho collaborated to develop initial cost modelling and other analysis to support Ministers' consideration of the NZCTU's proposal.

### Cost modelling

- 2 The report provides the outputs of initial cost modelling. 9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations

This range reflects the marginal cost of the NZCTU's proposal relative to existing (already significant) projected wage costs. This range reflects scenarios that include and exclude pay progression. 9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations

- 3 9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations

- 4 9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations

- 5 9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations

9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations

Breadth of issues enlivened and key risks for consideration

- 6 Prima facie, the NZCTU's proposal is intended to be extensive in its reach – across the central public service, wider public service entities, and funded and contracted sectors. This brings with it a breadth of issues, and key risks, to consider in determining next steps in response to the proposal.
- 7 Issues –
  - a. The unavailability of an implementation mechanism as Government is not currently able to mandate pay increases or other terms and conditions of employment in the way the NZCTU seeks.
  - b. The varied impact, and administrative complexity, for employers depending on how the proposed pay increase is mandated and funded.
  - c. The likelihood of disadvantaging low-paid staff compared with high-paid staff by applying pay increases without differentiating among workforces, issues, or needs.
  - d. The potential negative impact on public sector employers and relationships within agencies, particularly those with significant complexities across and within workforces.
  - e. Unsustainable timelines for whole-of-sector agreements caused by moving an entire sector onto a fixed two-year term for the proposed pay increase.
- 8 Risks –
  - a. A high likelihood of creating a bargaining floor that increases expectations sector-wide, beyond NZCTU and affiliate memberships, that could drive market movement upward and shift the existing basis for setting public sector wages.
  - b. The potential for adverse impacts, and management challenges, for collective agreements settled prior to any implementation of the proposed pay sector wage increase.
  - c. 9(2)(h) legal privilege
- 9 Depending on Ministers' view of the core proposal, officials at both Treasury and Te Kawa Mataaho are well-placed to work with the NZCTU to further develop the proposal and clarify the cost modelling parameters, issues, and risks detailed further within this report.

## Recommended Action

We recommend that you:

- a **note** the cost modelling, and related caveats, contained in this report. In particular, the significant effects on costing detailed in the methodology used to apply increases and set a working scope for applying these increases.
- b 9(2)(j) prejudice to negotiations

- c **note** that there will be an opportunity to revisit the budget allowance settings as part of the 2022 Half Year Update and the 2023 Budget Policy Statement.
- d **note** the key risks highlighted below, for Ministers consideration of the NZCTU's core proposal.
- e **note** the width of issues enlivened by the NZCTU's proposal as currently described.
- f **note** the further clarification suggested in this report, and officials' readiness to work with the NZCTU to develop its proposal in line with these lines of inquiry.
- g **agree** that, if Ministers wish to proceed with the NZCTU's core proposal, Te Kawa Mataaho lead the further engagement with the NZCTU necessary to define the proposal's parameters flagged in this report and articulate the non-pay issues referenced in the NZCTU's letter.

*Agree/disagree.*

- h **instruct** officials to draft a written response, for Ministers' signature, to the NZCTU's letter of 27 May capturing Ministers' view of the core proposal put forward for a pay increase for the public service.
- i **agree** this briefing is not published due to the high likelihood its content could compromise industrial negotiations.

*Agree/disagree.*

Hon Grant Robertson  
**Minister of Finance**

Hon Chris Hipkins  
**Minister for the Public Service**

## Joint Te Kawa Mataaho/Treasury Report: Pay Adjustment proposal

### Purpose of Report

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- 1 On 27 May 2022, the Minister of Finance and the Minister for the Public Service received a letter from the New Zealand Council of Trade Unions (NZCTU) that outlined a new approach to pay negotiations across the public sector.
- 2 Ministers commissioned Treasury and Te Kawa Mataaho Public Service Commission to collaboratively produce initial costings based on two scenarios for a sector-wide pay increase.
- 3 The NZCTU letter and Ministers' specifications in commissioning this report are attached as appendix A.
- 4 This paper provides Ministers with the costings sought together with advice on implementation options, given the limited levers available to Ministers to require outcomes in collective bargaining or remuneration reviews
- 5 The approach below to modelling is consistent with data requested from Treasury and Te Kawa Mataaho officials. The approach and accompanying assumptions have not been discussed with the NZCTU.
- 6 To ensure that officials can provide the best approximations within the given timeframe, a top-down approach to modelling has been taken. This makes a number of general assumptions. We assume that:
  - a. The proposed increase is passed on to all staff, regardless of union membership, or employment agreement type (collective or individual).
  - b. By default, all collective agreements including those currently, or soon, in bargaining will be varied to give effect to these increases. This means either additional increases on top of recent changes, or a new year(s) of remuneration for an extension of term.
  - c. While the proposal suggests unions retain the ability to negotiate higher increases, we assume that the indicated rate is implemented across all agreements.
- 7 Modelling is predicated on forecasted personnel cost data provided by agencies<sup>9(2)(j) prejudice to negotiations</sup>. The data includes all additional personnel costs including KiwiSaver/superannuation contributions, ACC, leave, etc. This data captures agencies' personnel forecast for all decisions funded to this point. Future budgets or out of cycle decisions are not included in the model.
- 8 9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations  
 9(2)(j) prejudice to negotiations  
 Alternate wage growth scenarios have been modelled and are presented at Appendix B.
- 9 Forecast wage growth does not account for other significant events which will affect pay settlements, most notably, pay equity settlements.
- 10 Two alternative options are modelled, and for each of these, two variations are modelled:

9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations

## Part 1: Analysis

### Outcomes of modelling

- 11 9(2)(j) prejudice to negotiations

The BEFU forecast of personnel costs plus baseline wage growth is the counterfactual used for our analysis, representing expected costs without additional intervention.

- 12 Baseline wage growth is driven by progression, promotion, and other negotiated increases, and is therefore sensitive to government policy, bargaining, and economic factors. Officials have modelled the impacts of various scenarios, see Appendix B, but current modelling 9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations

9(2)(j) prejudice to negotiations, 9(2)(f)(iv) confidentiality of advice

<sup>3</sup> Forecasted costs include personnel costs at Public Service departments and departmental agencies, non-public service departments, crown entities and crown agencies including school boards of trustees and District Health Boards, Tertiary Education Institutions, State Owned Enterprises, and the funded sector, which includes ECE teachers and kindergartens, non-DHB nurses, NGOs, cleaners, caterers, and security staff, and care and support workers. This does not represent 100% of agencies in scope, as some agencies' personnel costs are not large enough to meet the threshold for reporting purposes, and so information for those agencies is not reported. Inclusion of these agencies would not have a material impact on the estimates

- 13 The marginal additional cost of the NZCTU proposal across all employers in coverage, cumulative for 2022/23 to 2025/26 are shown in table 2 below. The table outlines scenarios that include and exclude pay progression. 9(2)(j) prejudice to negotiations

9(2)(j) prejudice to negotiations

- 14 9(2)(f)(iv) confidentiality of advice

15 Note:

- a. 9(2)(j) prejudice to negotiations

- b. 9(2)(j) prejudice to negotiations

- c. 9(2)(j) prejudice to negotiations

- d. 9(2)(j) prejudice to negotiations

- e. 9(2)(j) prejudice to negotiations

### Tertiary sector forecasts

- 16 Advice was sought on the cost implications for tertiary education institutions (TEIs) 9(2)(f)(iv) confidentiality of advice, 9(2)(j)

9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations

### State-funded sector forecasts

- 17 Advice was sought on the cost implications for state-funded employers. Data quality for this group is low, as these employees are not directly employed by an entity with personnel cost reporting obligations. 9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations

9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations

### Other public sector employers

- 18 Ministers may wish to consider how certain public sector employers in scope of the proposal would implement it, and how it would be funded. 9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations

- 19 9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations

9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations



9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations

## Part 2: Implementation considerations

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- 1 There are three key, interconnected implementation issues for Ministers to consider and advise on:
  - a. The parameters that would apply to the proposed pay increase;
  - b. The extent to which Ministers wish to distinguish between NZCTU members and non-members (including members of other unions) and staff on individual employment agreements (IEAs); and
  - c. The mechanism for implementation.
- 2 The NZCTU's proposal to vary settled collective agreements and its view that its proposal is in line with exemplary employment relations practice are also covered within Part 2 of this report.

### Parameters applicable to the proposed public sector pay increase

- 3 Final parameters of the proposed pay increase will have significant bearing on cost modelling (and management) across workforces
- 4 The key issues for consideration in clarifying the intended parameters of the proposal:
  - a. Relationship to built-in pay progression – whether the proposal includes built-in pay progression points (steps or similar) or is in addition to; and
  - b. Averaging – whether to average increases across workforces or set a consistent increase for all.
  - c. Bargaining ceiling vs floor – the proposal is silent on how the proposed pay increase would operate in wider bargaining.
  - d. Settled collective agreements – an agreed approach to inclusion of recent settlements.
  - e. Exemplary employment relations practice – the extent of alignment of the NZCTU's proposal.

### Relationship to built-in pay progression

- 5 Ordinarily, we assess proposed pay increases factoring in built-in pay progression for workforces. This recognises the lack of uniformity across remuneration systems, the remuneration advantage to workforces of built-in steps, variation in allowances and step size across workforces, and the inequities that could arise if pay increases were determined solely from base rates.
- 6 It will be important for Ministers to form a clear understanding of whether the NZCTU is proposing the pay increase include differing effects of built-in pay progression or increases delivered to workforces through respective pay systems.

9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations

## Averaging

- 7 Equally, we ordinarily assess proposed pay increases on workforce averages and discourage universal increases as neither nuanced or strategic enough to address discrete issues or differential need. Universal increases will miss opportunities to actively close pay gaps between low- and high-paid workforces.
- 8 It will be important for Ministers to form a clear understanding of the NZCTU's assumption of either a base rate increase, or an average increase across workforces.

## Bargaining ceiling vs floor

- 9 9(2)(j) prejudice to negotiations  
[Redacted]
- 10 9(2)(j) prejudice to negotiations  
[Redacted]
- 11 It is not yet clear how the NZCTU's proposal would operate in wider bargaining, particularly as a precedent for non-NZCTU unions and those on IEAs becoming incentivised to negotiate higher pay increases.
- 12 Therefore, the NZCTU's proposal could establish a wage increase floor offered in 2022 and 2023, with true costs likely higher. There is also no guarantee of consistency in offers across the sector.
- 13 Ministers may wish to consider extra protections that could be explored with the advantage of further time for analysis and consultation. 9(2)(j) prejudice to negotiations  
[Redacted]

## Approach to non-NZCTU Collective Agreements and Individual Employment Agreements (IEAs)

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### Other costs

- 14 Ministers will want to consider potential consequences for workers not covered by NZCTU-affiliated collective agreements and those on IEAs. Half the public sector workforce is not covered by a NZCTU-affiliated agreement. The extent and composition of coverage manifests differently across workforces and employers, including:
  - a. Workplaces/workforces without a collective agreement 9(2)(j) prejudice to negotiations  
[Redacted]
  - b. Workplaces with a multi-union collective agreement (MUCA) with the NZCTU and a non-NZCTU union as joint parties 9(2)(j) prejudice to negotiations  
[Redacted]

9(2)(j) prejudice to negotiations

- c. Workplaces where the main or only collective agreement is non-NZCTU 9(2)(j) prejudice to or the dominant union is not NZCTU-affiliated 9(2)(j) prejudice to negotiations; and
- d. Workplaces/workforces where most staff are covered by a NZCTU collective agreement 9(2)(j) prejudice to negotiations

15 The NZCTU assumes a passing-on to non-NZCTU members 9(2)(j) prejudice to negotiations. The approach taken to that pass-on and the type of advantage sought will have direct implications for employment relations in each of the four scenarios above.

16 9(2)(j) prejudice to negotiations, 9(2)(f)(iv) confidentiality of advice

17 9(2)(j) prejudice to negotiations, 9(2)(f)(iv) confidentiality of advice

18 9(2)(j) prejudice to negotiations, 9(2)(f)(iv) confidentiality of advice

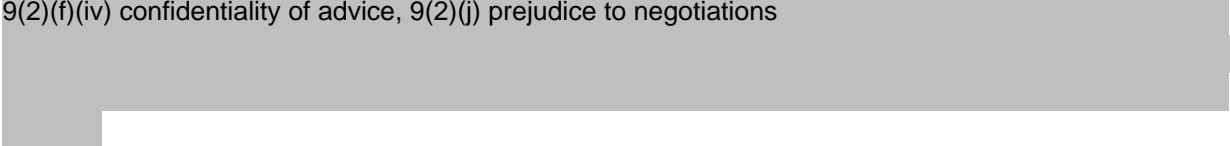
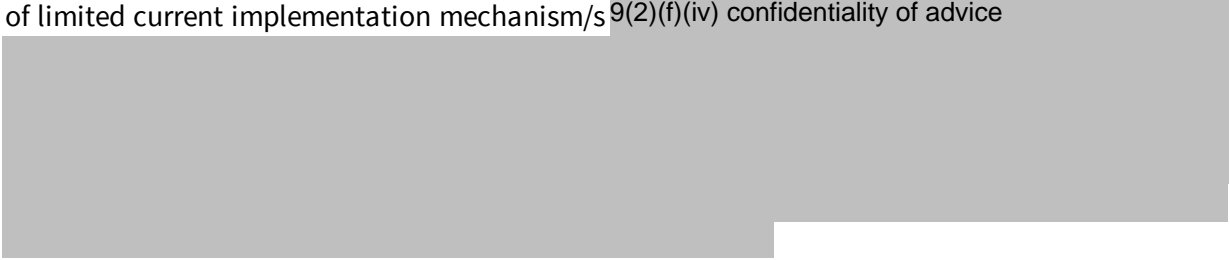
19 9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations

20 9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations

21 9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations

22 No mechanism exists for Ministers to require public sector employers to lift wages for some or all staff or set other terms or conditions of employment (beyond legislative minimum standards like minimum wage).

23 This issue has arisen in settlements where a Ministry or the Government desires for an offer to be made to parts of a workforce not covered by a collective agreement 9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations or to the funded sector where a Ministry is not the employer 9(2)(f)(iv) confidentiality of advice. However, these examples have been narrowly focused and subject to direct consultation with the requesting parties.

- 24 Government can, of course, attach requirements to funding but has limited means for monitoring adoption, particularly in the funded and contracted sectors.
- 25 The Government Workforce Policy Statement (GWPS) is of limited relevance as it cannot set terms and conditions of employment, nor does it cover the intended scope of the proposal (for instance, the GWPS does not cover SOE's or the funded or contracted sectors).
- 26 9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations  

- 27 If there is an appetite for pursuing the NZCTU's core proposal, we are well-placed to work with Ministers and the NZCTU to undertake the further work necessary to provide assurances on the issue of limited current implementation mechanism/s 9(2)(f)(iv) confidentiality of advice  

- 28 This proposal may be at odds with the GWPS and, with further time, may benefit from incorporating wider considerations (such as New Zealand's International Labour Organisation obligations), guided by Crown Law advice that could be sought for in-depth guidance on legislative change.
- 29 Seeking detailed advice would also provide assurance against any unintended impacts on related workforce policy, to determine if the most appropriate means for achieving the outcomes NZCTU seeks; and avoid duplication or contradictions giving rise to an unsustainable precedent.
- 30 The NZCTU appears to propose longer-term pay-setting in negotiation with Government. Ministers may note parallels between the objectives set out by the NZCTU – an approach that “creates an opportunity to attend to collective bargaining more effectively and efficiently, while providing a platform for innovation at an enterprise level” – and those of the Fair Pay Agreement framework (FPA) – to “provide a framework for collective bargaining ... across entire industries, rather than just between unions and particular employers” and would “set minimum employment terms and conditions for an occupation or industry as a whole”<sup>4</sup>.
- 31 Ministers may wish to seek clarification from the NZCTU on how it sees proposed increase to public sector pay operating in the context of a potential FPA scheme, currently under Select Committee consideration before Parliament.
- 32 There are impacts of differentiation beyond cost, such as relationships within agencies if staff doing the same work are paid different rates because of differing union membership and coverage – likely resulting in smaller increases to IEAs than those achieved through a proposed increase to public sector pay. This would also create additional complexity and administration costs, across the sector.

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<sup>4</sup> Fair Pay Agreements Bill 2022: Bills Digest 2674 <https://www.parliament.nz/en/pb/bills-and-laws/bills-digests/document/53PLLaw26741/fair-pay-agreements-bill-2022-bills-digest-2674>

33 9(2)(j) prejudice to negotiations

34 The health sector is an anomaly in that it has bargaining fee arrangements, and the education sector typically also provides delayed pass on/lump sums rather than differentiates the amount paid.

35 It is difficult to accurately model the effect of this advantage. No distinction has been applied in the modelling. However, we can approximate the cost, or savings, of providing a union only payment benefit, or delaying implementation for certain staff. 9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations

9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations

### **Approach to settled collective agreements**

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36 It would be useful for officials to work with the NZCTU to establish parameters of how this proposal would work with settled agreements, including any effect of terms for settled collective agreements.

37 The letter proposes that settled collective agreements are varied to provide for the proposed increase.

38 Given the rates proposed, staff covered by recent settlements under pay guidance would be disadvantaged if no increase was offered, especially for high earners (earning above \$100,000), who are unlikely to have had an increase but would be provided with one under this proposal. However, many recent settlements included lump sums in lieu of base increases, meaning the high-paid may be advantaged over the low-paid if an increase was universally applied. There is no easy way to account for that without complicated deductions from any future payments, and further advice may be required on individual circumstances.

### **Exemplary employment relations practice**

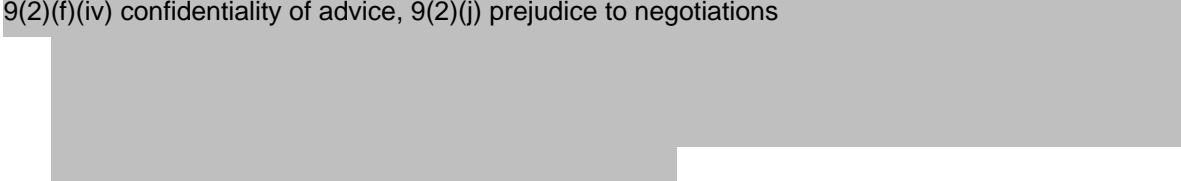
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39 Depending on the clarifications suggested in this report, further work with the NZCTU would assist developing the proposal in line with Government's goals regarding exemplary employment relations engagement – i.e., balancing the means for determining public sector pay increases with the importance of common understanding between employers and employees, and rewarding the development of strong relationships.

40 Based on the NZCTU's letter, there is potential for the proposed pay increase to create adverse consequences that exacerbate inequities. For example:

9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations

9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations



41 9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations



42 9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations

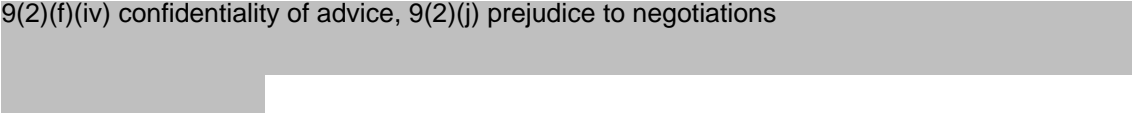


43 9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations



44 Based on the above modelling and consideration of the NZCTU's proposal as described in its letter, the key risks for Ministers' consideration in determining next steps:

- a. The limited availability of existing mechanisms to implement the outcomes sought.
- b. The likelihood of creating a bargaining floor that increases expectations sector-wide, beyond NZCTU and affiliate memberships, that could drive market movement upward and shift the existing basis for setting public sector wages.
- c. Create adverse impacts on, and management challenges for, collective agreements settled prior to any implementation of the proposed pay sector wage increase.
- d. Disadvantage low-paid staff compared with high-paid staff by applying pay increases without differentiating among workforces.
- e. Impact on public sector employers and relationships within agencies, particularly those with significant industrial complexities across and within its workforces.

- f. 9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations  

- g. Create unsustainable timelines for whole-of-sector agreements – the NZCTU proposes moving a large volume of the public sector workforce on two-year terms.

## Appendix A

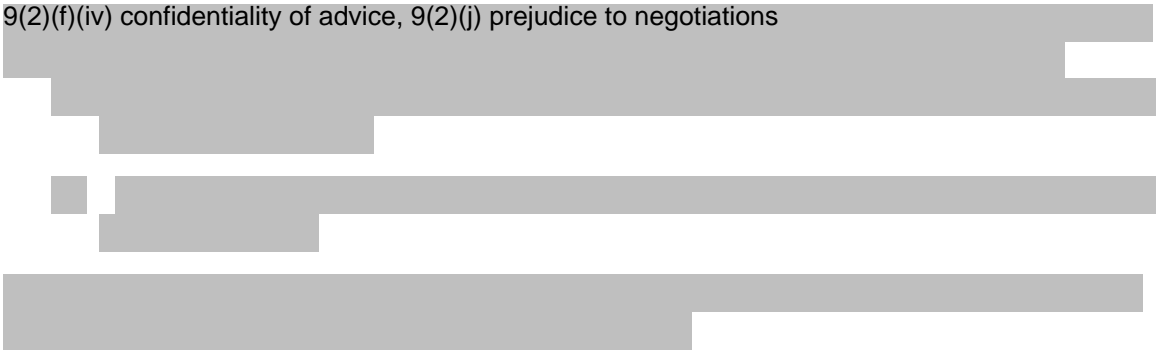
### Commissioning of officials' - 30 May 2022

[...]

Ministers are commissioning the Treasury and Te Kawa Mataaho Public Service Commission to work collaboratively to produce a rough initial costing of the CTU's 'Public Sector Pay Adjustment' proposal, based on two scenarios about 'agreed pay adjustments', to be delivered by **Wednesday 8 June 2022**.

The Ministers are comfortable the following specifications reflect the information they are looking for, but are happy for officials to discuss with the two offices if they feel an amended version would be more effective:

9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations



The 'marginal' aspect would be estimated by comparing the cost of the PSPA to the cost of collective-by-collective bargaining based on current contingencies for bargaining, plus any anticipated extensions to those contingencies likely to be required, plus estimates for any collectives likely to be settled over the period for which there are not yet contingencies. The portion of these contingencies (and other components) set aside for elements other than pay rates should be set aside for the purposes of the cost of the PSPA, since those components would also be outside the costed amount for the PSPA.

Best endeavours should be taken to separately estimate costs with and without including:

- o The state-funded sector;
- o The tertiary sector; and
- o The proposed provision for already-settled collectives to be offered a variation to join the pay adjustment.

[...]

### Clarification from officials

[...]



## Caveats

We note that quality of data is inconsistent across the workforces that are in scope of the commissioning, with the highest quality data available for Public Service Departments, and relatively good data available for education and health sectors. However:

- High-quality collective agreement data is limited at a system level, which necessitates assumptions about union membership distribution across workforces, CTU and non-CTU collective agreement where more than one agreement applies to the workforce, and employers.
- We have limited information about the funded workforce (in terms of FTEs, salaries, type of agreements).
- We have up to date information about tagged contingencies that have been agreed by Cabinet, but will need to make assumptions on the level of bargaining contingencies that have not yet been agreed by Cabinet.
- Our advice in response to this commission will not analyse the potential for Agencies and employers to meet from baselines the costs that we identify.

Modelling is an approximate of costs incurred, and does not reflect other increases which may occur during this period, including increases required for legislative reasons and to close unjustifiable pay gaps (e.g. minimum wage increase or Pay Equity claims), or increases due to promotion to a higher position.

## Assumptions

### Data

- Modelling will consider two scenarios,
  1. 9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations  
[REDACTED]
  2. 9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations  
[REDACTED]
- 9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations  
[REDACTED]
- With sufficient time, we could test or model alternatives to most of these data assumptions, though this will not be feasible for Wednesday 8 June.

### Process

- We will use the data that is currently available to PSC and Treasury but will not engage with Agencies to source additional data, based on the information security risks and the limited time available to collect and analyse new data from Agencies.
- We will not engage with the CTU for any further points of clarification.

[...]

## Appendix B

1. This appendix illustrates how marginal costing is dependent on assumptions around baseline wage growth – i.e., how wages will grow over the next 4 years without intervention.

### Variations on modelling

2. In addition to the figures used in the report, officials modelled several baseline wage growth scenarios:

#### Historical average public sector workforce growth average

3. Over the last 20 years the public sector has averaged approximately 3.5% wage growth per annum. This includes progression and general wage growth. This has not been used as the baseline expectation because the growth rate varied considerably during the 20-year period.

#### Whole economy wage growth forecast

4. This measure intends to forecast the unadjusted Labour Cost Index (LCI). Historically public sector wage growth tracks lower than private sector wage growth during recessions and periods of fiscal restraint. 9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations

5. 9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations

6. Figure 1 below illustrates the difference in expected costs (or potentially savings) when adopting different assumptions about baseline wage growth. Note:

- a. In general, the higher anticipated baseline wage growth is, the lower the marginal impact of the proposed increases.

- b. 9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations

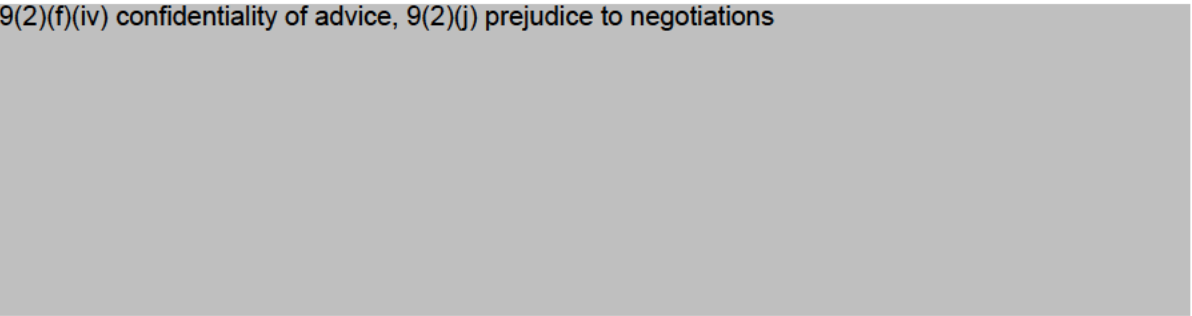
- c. Negative values represent savings. This occurs where higher wage growth is forecast to occur without intervention.

- d. 9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations
- e. Three tables are shown in Figure 1:
  - i. 'Total cost' shows the total cumulative personnel cost of the four-year period under each option and baseline wage growth variation.
  - ii. 'Total cost of proposal (less contingencies)' shows the total additional spend expected over the period compared to current spending but allowing for contingencies already set aside for bargaining.
  - iii. 'Marginal cost of the proposal', which is what we report above and have been commissioned to provide advice on, shows the total four-year additional cost, compared to what we would otherwise expect to spend over that period. This is the best measure of the impact of each option.
- f. 9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations

**Figure 1:** 9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations

9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations

9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations

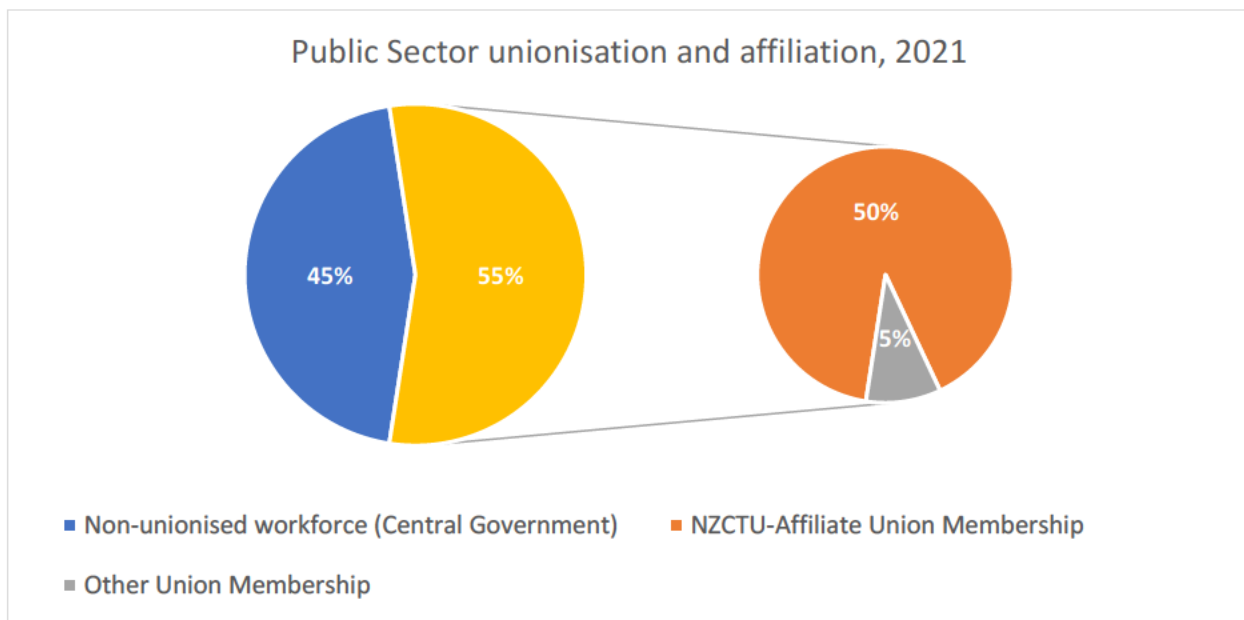


# Appendix C – Contextual Union Data

## Union Membership

1. As at 1 April 2021 there were 345,900 union members across all registered unions in New Zealand, meaning approximately 17.3 percent of paid employees were union members.
2. Union density in the public sector is high relative to all-of-economy unionisation rates:
  - a. Approximately 55 percent of public servants in 2021 were union members, including a significant numbers proportion of in the health and education sectors. Public sector workers make up 60 percent of all union membership.
  - b. This compares to 7.7 percent in the private sector.
  - c. Public sector membership is also growing, compared to the private sector. Victoria University reports that private sector union membership has fallen by 18 percent since December 2008 while public sector membership has grown 12 percent.
3. Figure 1 shows the approximate makeup of the public sector by union coverage, and union affiliation for the Public Service, health sector, education sector, and other government sectors (excluded are local government, and the funded sector).


**Figure 1: Public sector union coverage and affiliation, 2021**



## **Public Service Union Membership**

4. The Public Service Association (PSA) is the largest union in New Zealand, with members across the Public Service (around 24,000 members at 30 June 2021, about 40 percent of all staff in the public service), health and education sectors, and wider public sector employers including local government.
5. The PSA also has the highest number of collective agreements across Public Service agencies, so while membership is around 40 percent of public servants, approximately 75 percent of public servants perform work which is within the coverage clause of a PSA collective agreement.
6. Of the 15 unions with collective agreements in the public service, 10 are not affiliated with the NZCTU including Corrections Association of New Zealand, the Customs Officers Association, TaxPro, the Foreign Service Association, and the National Union of Public Employees. Health likewise has a number of high coverage unions which are not affiliated with the NZCTU.
7. Other than understanding high level union membership data, the picture of union membership in Crown entities, education (especially tertiary and ECE) and health is not as clear as it is for the Public Service. For example, we do not collect how many Crown entities have a collective agreement (outside of the larger ones or the PSLT ones).
8. Figure 2 below shows agency level union membership as at 30 June 2021, gathered through the Commission's 2021 Public Service Workforce Survey for Public Service departments. Note that this data is reported by agencies at the aggregate level (not individual level) so may be of variable quality.

9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations



## **Public Service Bargaining**

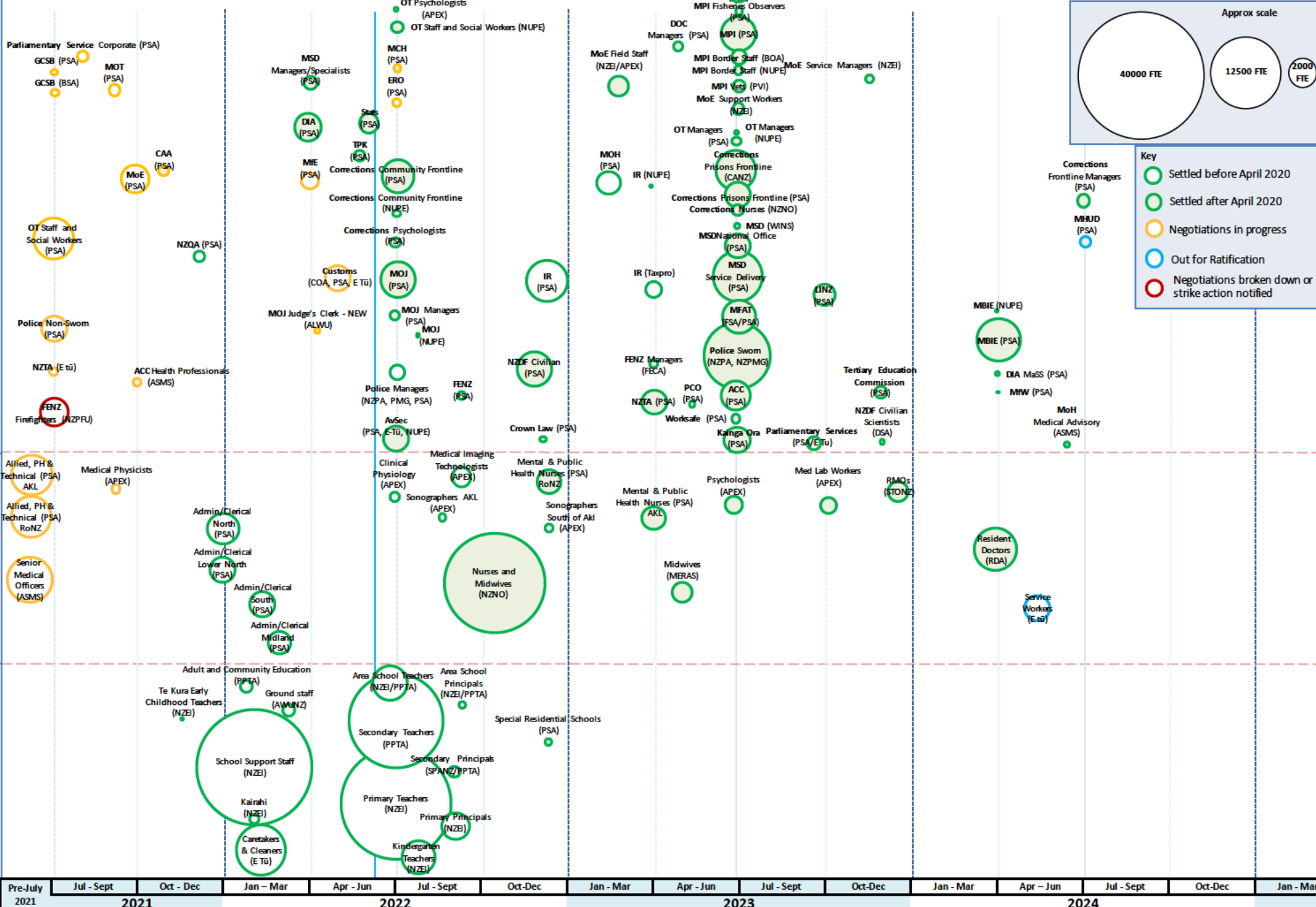
9. There are 54 collective agreements in the public service (15 of which are currently being bargaining for). The next 18 months see 35 of them being bargained for (most of which expire June 2023).
10. The Bargaining Bubble Chart (Appendix 4) indicates when these agreements, along with select others in the public sector, including health and education sectors, will be bargaining.
11. Most Public Service agreements are expected to bargain at some point within the next 18 months (or are bargaining now). Agreements not bargaining in the next 18 months include:
  - a. Ministry of Education support workers (Dec 2023),
  - b. Department of Internal Affairs Ministerial staff; Ministry for Women; Ministry of Business, Innovation and Employment; Ministry of Health ASMS. All of these agreements have settled under pay guidance.
12. Four Public Service agreements bargaining in the next 18 months cover staff earning over \$200,000:
  - a. Crown Law Office (expiring Dec 2022)
  - b. Ministry of Health (expiring Mar 2023)
  - c. Ministry of Justice x 2 (PSA and NUPE) (expiring Jun and Aug 2022)
13. There are also five agreements covering managers bargaining, or due to bargaining in the next 18 months:
  - a. One is initiated (Ministry of Social Development, Managers and Senior Specialists)
  - b. One has recently settled and will bargain again in the middle of next year (Oranga Tamariki (PSA)
  - c. Three will bargain within the next 18 months (Department of Corrections, Oranga Tamariki (NUPE) and Ministry of Education)



Public Service

Health Sector (DHBs)

Education Sector



27 May 2022

To: Chris Hipkins  
Minister of Public Services  
Parliament  
Wellington

### **Proposal for a Public Sector Pay Adjustment (PSPA)**

9(2)(j) prejudice to negotiations

#### **Context**

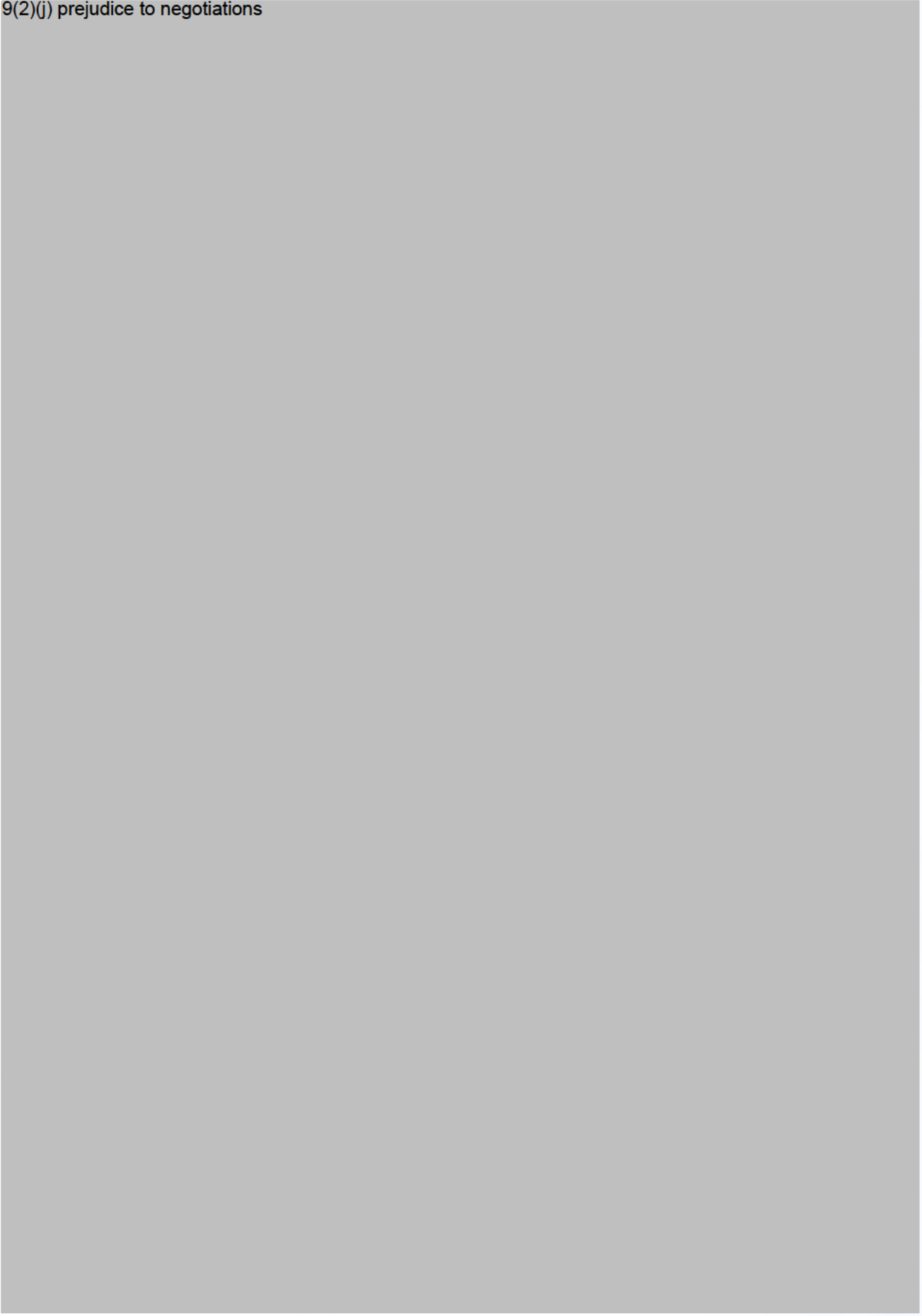
Collective bargaining in the public sector has been challenging for both parties in recent times, and is only likely to become more so, in the context of rising costs of living and budgetary restraints. Currently collective bargaining in the public sector tends to take place within a more limited context, with a strong focus on pay adjustments, which can leave little room for other important issues and conditions of employment.

Te Takawaenga Whakamana / Accord for the Public Service includes a joint commitment to become an exemplar of modern, progressive employment practice, and to collectively bargain within this context. This proposal is consistent with this Accord and will enable upcoming rounds of collective negotiations to occur in a more strategic, industry wide fashion.


The CTU believes that a more centralised and managed approach to establish public sector pay adjustments, guide wider content and support productive bargaining styles is required to lift the parties out of their current practices. Doing so will necessitate a review and adjustment of the Government's bargaining expectations for the public service.

9(2)(j) prejudice to negotiations

9(2)(j) prejudice to negotiations



9(2)(j) prejudice to negotiations



The above proposal is a constructive and strategic approach to settling pay rates in the public sector at a time when public servants, having absorbed the additional responsibilities of the pandemic, are now facing increasing demands on the job, while pressures are mounting with sharply rising costs of living. This proposal creates an opportunity to attend to collective bargaining more effectively and efficiently, while providing a platform for innovation at an enterprise level.

I look forward to your positive response.

Yours sincerely



Richard Wagstaff  
NZCTU President

CC Grant Robertson Dep PM and MOF

# Hon Chris Hipkins

MP for Remutaka

Minister for COVID-19 Response

Minister of Education

Minister for the Public Service

Leader of the House



**Richard Wagstaff**

**President**

**New Zealand Council of Trade Unions - Te Kauae Kaimahi**

Dear Richard

## **Proposal for a Public Sector Pay Adjustment (PSPA)**

Thank you for your letter of 27 May 2022 setting out the New Zealand Council of Trade Unions (NZCTU) proposal for a Public Sector Pay Adjustment (PSPA). I have given consideration to this proposal, in consultation with the Minister of Finance.

I am writing to signal that the Government is open to engaging further with the NZCTU and its affiliates on this approach 9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations

I welcome the initiative you are taking to seek to establish constructive and strategic approach to settling pay rates in the public sector in the context of both significant fiscal pressures and cost of living challenges.

However, in the interests of commencing this process with clear mutual understanding, I want to set out some aspects of the PSPA proposal which would likely be problematic for the Government and agencies:

- 9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations

- 9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations

- 9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations

[Redacted]

- 9(2)(f)(iv) confidentiality of advice, 9(2)(j) prejudice to negotiations

[Redacted]

I do not see any of these challenges as unsurmountable. I am sure that the PSPA proposal can be adapted to address these concerns, and hopefully identifying them now will allow work to begin on identifying constructive solutions.

Thank you again for taking the initiative with this proposal. I look forward to working further with you on it.

Yours sincerely



**Chris Hipkins**  
**Minister for the Public Service**