AIDE-MEMOIRE

Te Kawa Mataaho
Public Service Commission

Oral item: Pay Restraint in the Public Sector

Date:	**3 March 2021**	**Security Level:**	IN CONFIDENCE
Minister:	**Hon Chris Hipkins, Minister for the Public Service**		
Copy to:	**Hon Grant Robertson, Minister of Finance**		
Report No:	**2021/0044**		

Purpose	Update your Cabinet colleagues on pay restraint in the Public Service
Date of meeting	8 March 2021
Minister	Hon Chris Hipkins, Minister for the Public Service

Key issues

Key messages

- Following COVID, our fiscal position will require careful management for a considerable period.
- Pay restraint is going to be with us for some time.
- In this environment, the aim of collective bargaining in the public sector needs to reflect the Government's position on pay restraint.
- The lowest paid workers in the public sector will be the main focus in collective bargaining, reflecting the Government's priorities (and, for instance, its commitment to living wages for contractors to public service agencies).
- Not all pay disparities can be resolved today. Or even in the next year. Solutions must be fiscally sustainable, reasonable and responsible.
- Fixing pay disparity will take time. For now, the priority is the lowest paid workers. The lowest paid workers will not be left behind.
- It's not about austerity. It's about managing wage growth in an environment of pay restraint

Economic Outlook

- The fiscal context for employment relations has been shaped by the cost of responding to COVID-19. As of the Half-Year Economic and Fiscal Update (HYEFU) in December 2020, net debt is expected peak at 52.6% of GDP in 2022/23 (from 26.4% in 2019/20), and the operating balance before gains and losses (OBEGAL) is projected to be in deficit throughout the forecast period to 2024/25.
- However, New Zealand's elimination strategy has allowed for a relatively swift economic recovery, which is surpassing expectations set at HYEFU. Rather than rising as expected, New Zealand's unemployment rate has fallen from 5.3% to 4.9% at the end of 2020, and GDP growth for the September 2020 quarter was the highest on record at 14.0% (but still negative on an annual basis).

- In this unexpectedly optimistic economic context, Ministers will continue to play an important role in setting expectations and ensuring upcoming wage settlements occur in line with the Government's fiscal context.

Ministers and chief executives

- Ministers and chief executives also took a 20% pay reduction for 6 months as an act of solidarity last year.
- The Remuneration Authority issued a determination in December 2020 that it would maintain the salaries and allowances of MPs at 2019 levels through to the next general election.

Everything that we are doing in relation to pay restraint applies to chief executives, as it does to all senior leaders. They will receive zero increase in their remuneration while these measures remain in place

The Public Service pay restraint landscape

- We are continuing to actively manage the gap between the highest and lowest earners. For instance, chief executive average pay levels in the public service were brought down through decisions such as the removal of at-risk performance payments.
- The Public Service Commissioner issued guidance in April 2020 asking for visible pay restraint in the public sector. That guidance ends on 1 July 2021.
- The 2020 guidance asked public service chief executives to show empathy with the private sector, where many were anticipated to be losing jobs or facing significant pay reductions. The guidance allowed exceptions for low pay, closing gender and ethnic gaps and also to honour previously negotiated and agreed increases (such as within settled collective agreements).
- Only a handful of collective agreements expired last year; so many staff gained increases through existing commitments.
- Job security is traditionally seen as high in the public service.
- The Commissioner is developing further guidance on pay restraint to take effect from 1 July. He anticipates issuing this at the end of the month alongside the new Government Workforce Policy Statement outlining expectations on public sector employment relations. (This is currently with your office for Ministerial consultation).
- This year sees 33 of the 51 collective agreements in the Public Service (29,000 FTE) expiring (or in bargaining) along with ACC, Fire and Emergency NZ, NZ Police, NZTA Waka Kōtahi, and significant workforces in the Health sector. The bigger workforces in bargaining this year include:

Workforce	Approximate size of workforce (FTE)	Base pay range (excludes allowances)
Core public service examples		
Corrections Prison managers, staff and nurses	5,500	9(2)(f)(iv) confidentiality of advice
MSD	5,000	9(2)(f)(iv) confidentiality of advice

MPI border staff, professional verifiers and fisheries observers	4,200	9(2)(f)(iv) confidentiality of advice
Oranga Tamariki	4,400	9(2)(f)(iv) confidentiality of advice
MBIE	3,500	9(2)(f)(iv) confidentiality of advice
Wider public sector examples (excluding local government)		
Police Constables and Employees	12,500	9(2)(f)(iv) confidentiality of advice
Nurses and midwives	27,000	9(2)(f)(iv) confidentiality of advice
Allied Health	8,000 FTE	9(2)(f)(iv) confidentiality of advice
RMOs (Junior doctors)	4,400	9(2)(f)(iv) confidentiality of advice
SMOs (Senior doctors)	4,600	9(2)(f)(iv) confidentiality of advice

- In addition, the annual remuneration round for most agencies occurs on 1 July each year.

The Commissioner's intention to issue pay restraint advice

- The Commissioner intends to issue further pay restraint advice in late March, that will apply from 1 July. This is an important lever to set expectations in the public sector.
- No end date is set in this advice. This is anticipated to drive a more sustained restraint approach in agencies (rather than short-term reactions) and provide for an even coverage of affected workforces as agreements expire.
- It is intended that this advice requires public service agencies, and encourages the wider public sector (excluding local government), to:
  - Hold pay rates for higher earners and senior leaders
  - Ensure pay increases only occur in the following circumstances:
    - Lifting pay for low paid staff
    - Applying increases that are contractually required by existing agreements (including progression steps that are in many collective agreements), but to seek change in future bargaining rounds where current obligations are not consistent with pay restraint
    - Addressing gender and ethnic pay inequities
    - Addressing acute recruitment and retention issues demonstrably impacting on frontline service delivery.
  - Ensure in bargaining strategies that salary increases are low averaged across all staff, including the cost of any built-in increases.