



Joint Te Kawa Mataaho / Treasury Report: Update on the Public Service Employment Relations Environment - September 2020

Date: 28 September 2020

Security Level: IN CONFIDENCE

Report No: Te Kawa Mataaho [2020/0161]; Treasury [T2020/3199]

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| | Actions Sought | Due Date |
|--|---|-------------------|
| Hon Grant Robertson, Minister of Finance | Note this update on the public service employment relations environment | 28 September 2020 |
| Hon Chris Hipkins, Minister of State Services | | |

Enclosure: **Yes**

Minister's Office Comments

| | |
|--|--|
| Comments: | |
| | |
| Date returned to Te Kawa Mataaho: | |

Recommended Action

We recommend that you:

- a **note** this update on the public service employment relations environment
- b **agree** that this briefing is not published due to it commenting on current and future negotiations for pay and conditions.

Agree/disagree.

Agree/disagree.

Hon Chris Hipkins

Minister of State Services

Hon Grant Robertson

Minister of Finance

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Joint Te Kawa Mataaho / Treasury Report: Update on the Public Service Employment Relations Environment – September 2020

Purpose of Report

- 1 This item provides Ministers with an update on Public Service employment relations strategy and context since the last meeting on the Ministerial Oversight Group on State Sector Employment Relations on 25 June.

Themes and Issues

Economic and Fiscal Context

- 2 The COVID-19 pandemic continues to cause widespread economic and social disruption around the world, and there remains continued uncertainty about New Zealand's economic outlook.
- 3 The Treasury released the Pre-Election Economic and Fiscal Update on 16 September 2020. In the update, the Treasury noted that while the initial economic impact of COVID-19 has been less severe due to a quicker-than-expected domestic recovery, a deterioration in the global economic outlook will slow the pace of economic recovery over the medium-term.
- 4 While the Government support, and a faster move to lower alert levels, has helped to cushion the initial impact on employment; unemployment is still forecast to rise to a peak of 7.8% in the March 2022 quarter. This is lower and later than the peak of 9.8% in the September 2020 quarter forecast in the *Budget Update*. Higher unemployment will reduce pressure on wages in the economy, especially in the private sector, which is reflected in a significant reduction in average wage growth forecasts from the *Half-year Economic and Fiscal Update* in December 2019.
- 5 The economic impact of COVID-19, coupled with the Government's response, has had a significant impact on the Government's fiscal position. The Government's balance sheet is forecast to absorb most of the fiscal impact of the COVID-19 Government response and impacts of the economic downturn, with increasing borrowings and reducing net worth. Falls in tax revenue and rising debt has also weakened the government's structural fiscal position.
- 6 In solidarity with the expected impact on the private sector labour market, Cabinet agreed that pay restraint be exercised in the public sector, with initial guidance applying through to June 2021. Pay restraint has the added benefit of limiting wage increases that would push against future efforts for fiscal consolidation but also acknowledged limitations.
- 7 In the longer run, further pay restraint will be one of several potential levers to support a return to a sustainable fiscal position. Exercising pay restraint will reduce the need to rely on other levers such as revenue increases or spending reductions.

The effect of pay restraint in the public service

- 8 In April 2020, the Public Service Commissioner released pay restraint guidance in response to the economic conditions of COVID-19 to the public service and Crown entities. We have now seen four months of bargaining and remuneration reviews under this guidance.
- 9 Generally, we are pleased with the way the restraint guidance has been adopted by those agencies that have discretion. However, not all agencies are able to react to pay restraint guidance this year – either because they have settled collective agreements setting remuneration rates, or a specific commitment to implement 'market' rates (as measured by an external source). Where discretion is possible, we are seeing low or no movement of remuneration bands in 2020.

10 It is early to see clear measurable trends of the restraint taking effect, especially in the bargaining environment. However, in remuneration rounds and in bargaining strategies that have been approved, we are seeing growing evidence of:

10.1 A noticeable reduction in pace/scale of increases for public servants and general acceptance of no increases for those earning over \$100,000 in 2020/21.

10.2 A focus on lifting low pay rates, including dedicated increases to lift low paid staff above (and keep pace with likely 2021 increases in) the Living Wage Rate of \$22.10. 9(2)(g)(i) free and frank

[Redacted]

10.3 9(2)(g)(i) free and frank

[Redacted]

10.4

10.5

10.6 Increases for staff earning over \$100,000 are occurring in agencies where there is no discretion and a commitment to progression that is being honoured. 9(2)(g)(i) free and frank

[Redacted]

10.7 The proposed duration of settlements has, with a couple of exceptions, only slightly reduced from the usual 2+ year terms that we observe in the public service (18-24 months is currently common). 9(2)(g)(i) free and frank

[Redacted]

11 While the PSA dominates within the public service, there are a number of other smaller unions, many of which are not affiliated to the Council of Trade Unions (CTU). 9(2)(g)(i) free and frank

[Redacted]

12 9(2)(g)(i) free and frank

[Redacted]

9(2)(g)(i) free and frank

[REDACTED]

Update on bargaining

- 16 An overview of the State sector bargaining landscape is attached (Appendix 1 - Key State sector bargaining 2020 - 2022).
- 17 We are aware of collective agreements covering approximately 32,000 FTE which are currently in bargaining, across the public service, and in the health sector. This includes the New Zealand Nurses Organisation (NZNO) collective agreement (approximately 23,500 FTE). There are 11 public service departments that are either currently in bargaining or are likely to commence bargaining soon. This covers approximately 17,000 FTE and 16 collective agreements. Agencies with more than 1,000 FTE that are engaged in bargaining are Department of Corrections, Department of Internal Affairs (DIA), Ministry of Foreign Affairs, Ministry of Justice, Ministry of Social Development (MSD), and Stats NZ.
- 18 Progress in bargaining was slow post the initial lock down of COVID-19, and there was concern from the Commission that this indicated a reluctance to bargain under restraint. However, all bargaining which was paused due to lockdown has now resumed.
- 19 In the last few weeks, a number of significant negotiations have advanced (such as DIA, Te Puni Kōkiri, Corrections and Justice) and we are starting to see the first public service settlements negotiated fully under pay restraint. Key changes since June 2020 are:
 - 19.1 out of scope [REDACTED]
 - 19.2 out of scope [REDACTED]
 - 19.3 out of scope [REDACTED]
- 20 Other settlements likely soon, all with the PSA, include:
 - 20.1 Ministry of Justice
 - 20.2 Department of Internal Affairs (have agreed terms of settlement)
 - 20.3 Te Puni Kōkiri (drafting Terms of Settlement)

20.4 Ministry of Housing and Urban Development

20.5 Stats NZ

20.6 NZ Defence Force

20.7 Department of Corrections – Community staff.

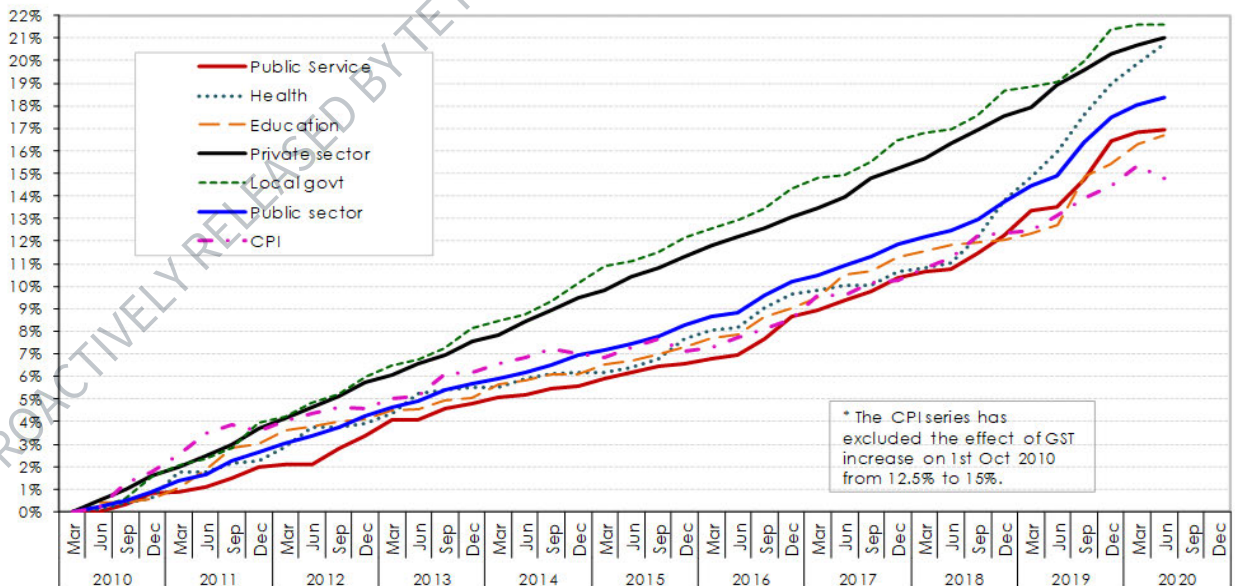
21 While it is pleasing to see this progress, agencies are still facing significant pressure from their union(s) to provide significant increases to staff, including those that earn over \$100,000 (including some staff covered by collective agreements that earn well above \$100,000).

Health Sector Environment

22 out of scope

23 out of scope

24 The chart below shows that cumulative increases to wage movements in the health sector have accelerated since the September 2018 quarter, and now trails cumulative wage growth in the private sector by 0.3 percentage points since March 2010. The cumulative wage growth gap (since 2010) between the health sector and the public service has expanded from 3.1 percentage points last quarter to 3.8 percentage points this quarter.



25 out of scope

out of scope

26 out of scope

27 out of scope

28 The wider health environment has proved challenging with strike notices issued in support of pay parity claims and for private sector Laboratory workers.

29 out of scope


Update on Pay Equity

30 The impact of Alert Level 3 in Auckland and Alert Level 2 in the rest of New Zealand appears to have had a minimal impact on the pace of pay equity claims. Key updates are outlined below:

out of scope

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out of scope



Tripartite work

- 34 Along with the administration and clerical Pay Equity claim reported on above, we have also continued to work with the PSA and chief executives to progress:
 - 34.1 Consistent and common conditions for public servants
 - 34.2 Progressing the Public Service Leadership Team/PSA Strategic Forum's work programme
 - 34.3 Response to COVID-19.

9(2)(g)(i) free and frank



Appendix 1: Key State sector bargaining 2020 – 2022

[IN-CONFIDENCE]

Negotiations in Confidence

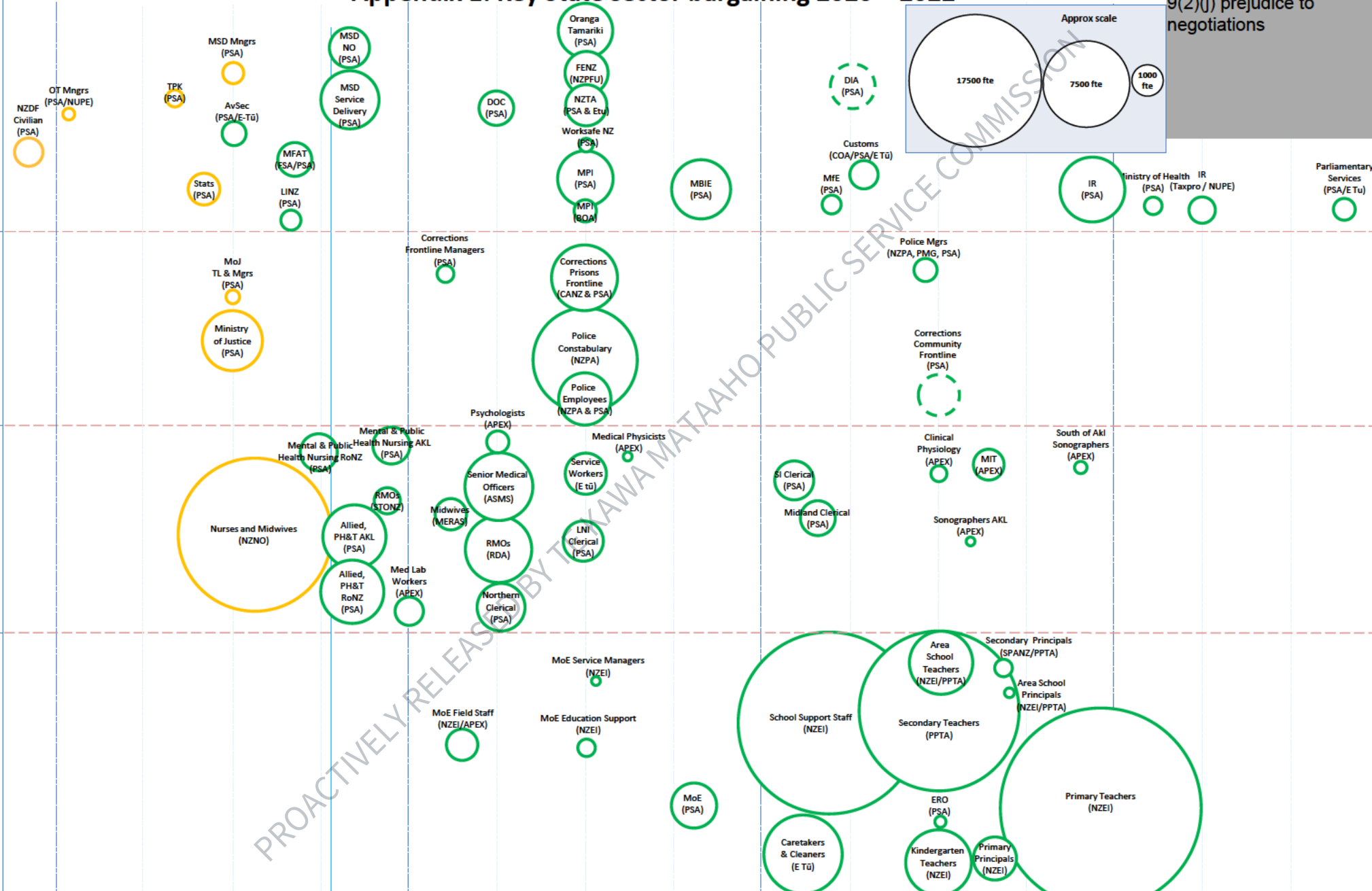
9(2)(j) prejudice to negotiations

Other

Justice

Health (DHBs)

Education



| Pre 2020 | Jan - Mar | Apr - Jun | Jul - Sept | Oct - Dec | Jan - Mar | Apr - Jun | Jul - Sept | Oct - Dec | Jan - Mar | Apr - Jun | Jul - Sept | Oct - Dec | Jan - Mar | Apr - Jun | Jul - Sept |
|----------|-----------|-----------|------------|-----------|-----------|-----------|------------|-----------|-----------|-----------|------------|-----------|-----------|-----------|------------|
| 2020 | | | | 2021 | | | | 2022 | | | | 2023 | | | |

[IN-CONFIDENCE]

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