

**In Confidence**

Office of the Minister for Children

Cabinet Social Wellbeing Committee

**APPROVAL TO DRAW DOWN FUNDING TO SETTLE A PAY EQUITY CLAIM FOR SOCIAL WORK IN THE FUNDED SECTOR**

**Proposal**

- 1 This paper seeks Cabinet’s agreement to:
  - 1.1 draw down \$80.623 million over five years from the Funded Sector Social Work tagged operating contingency (the contingency), agreed to by Cabinet on 4 July 2022, to enable the Funding Agencies (described in paragraph 15) to increase funding for five employers<sup>1</sup> (the employers) they contract with who are party to a pay equity claim for social work in the funded sector (the claim)
  - 1.2 s9(2)(j) 
  - 1.3 allocate \$2.952 million from the between-Budget contingency for the employers to meet their one-off implementation costs to settle the claim.

**Relation to government priorities**

- 2 The settlement of the claim reflects Labour’s 2020 Election Manifesto commitment to make it easier for women to gain pay equity in their organisation or across their industry. The claim is enabled by the Government’s amendments to the Equal Pay Act 1972 (the Act) made through the Equal Pay Amendment Act 2020.
- 3 The pay equity proposals for the claim are in line with the Government’s commitments to improving access to pay equity in Funded Sector agencies [GOV-20-MIN-0033 refers].<sup>2</sup>

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<sup>1</sup> The five employers are (refer recommendation 3):

- 1 Stand for Children’s Services Tū Maia Whānau
- 2 Ngāpuhi Iwi Social Services
- 3 Wellington Sexual Abuse HELP
- 4 Christchurch Methodist Mission
- 5 Barnardos New Zealand.

<sup>2</sup> The Funded Sector refers to organisations sitting outside of the State sector which receive government funding to deliver social services. Many social, health, community, and education services are contracted out and delivered through the Funded Sector.

## Executive Summary

- 4 On 4 July 2022 Cabinet agreed to establish a Funded Sector Social Work tagged operating contingency of \$89.161 million (the contingency). This was to enable the settlement of a pay equity claim for 430 employees carrying out social work tasks employed by five employers in the Funded Sector. [SWC-22-MIN-0117 and CAB-22-MIN-0251.01].
- 5 The six government Funding Agencies are now seeking to draw down funding from the contingency to pass on to these employers that they fund as it has been established the Funding Agencies cannot meet these costs from their baselines. Those Funding Agencies are: Oranga Tamariki–Ministry for Children (Oranga Tamariki); the Ministries of Education, Social Development, Justice, Housing and Urban Development and the then District Health Boards through the Ministry of Health (since replaced by Te Whatu Ora - Health New Zealand). A further two agencies provide or administer funding that has been used to employ a small number of people who undertake social work: the Ministry of Business, Innovation and Employment and Te Puni Kōkiri (for Whānau Ora).
- 6 Cabinet is asked to agree to the draw down of the following amounts:
  - 6.1 \$80.623 million over five years for remuneration and indirect costs of settling the claim from the contingency
  - 6.2 s9(2)(i) [REDACTED]
  - 6.3 \$2.952 million in FY2022/23 –to reimburse the employers for the one-off implementation costs of the settlement from between-Budget funding.
- 7 There are precedent risks associated with aspects of how it is proposed the settlement is funded. These aspects are:
  - 7.1 implementation costs are provided for in this settlement
  - 7.2 salary “progression” is provided for in the amounts drawn down from contingency
  - 7.3 Contingency funding is being used to meet the additional costs associated with funding from philanthropic and multi-agency sources
  - 7.4 s9(2)(i) [REDACTED]

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<sup>3</sup> At the time the contingency was calculated 430 employees were within scope of the claim, but on 1 July 2022, the effective date of the settlement this had increased to 492 employees. The additional employees come from a mix of new contracts involving social work, and ongoing refinement of which roles are in scope of the claim. New employees can be added up to the point of the effective date of the claim

- 8 The paper describes the reasons for the adopted approach, and explains that they are particular to this claim and will not necessarily be used in current or future claims. Specific decisions are sought for each of the funded elements of the settlement.
- 9 Once Cabinet has agreed to the amounts available to be drawn down, the first-year costs will be transferred to a single appropriation with Oranga Tamariki so that it can be paid to the five employers.
- 10 The amounts agreed for each Funding Agency that is available from the contingency for the second and subsequent years will be allocated to appropriate Vote appropriations for each Funding Agency.
- 11 Within the next year, Funding Agencies will work together to update their existing funding models for the services through which they employ people who undertake social work, to reflect the new levels of remuneration and professional support.
- 12 Cabinet has agreed to a process by which the outcome of this claim could be extended to the wider sector once an appropriate validation process has been run [GOV-21-MIN-0032]. Te Kawa Mataaho Public Service Commission (the Commission) Pay Equity Taskforce will lead that process and report back to Cabinet in in the first quarter of the 2023/24 financial year.

### **Background to the pay equity claim**

- 13 In August 2019, the Public Service Association Te Pūkenga Here Tikanga Mahi (PSA) raised a pay equity claim under section 3(1)(b) of the Act on behalf of its members, and other employees of the employers, all of whom receive Government funding to deliver services (refer recommendation 1).
- 14 The claim relates to 492 employees of the employers who perform social work tasks, regardless of how their position is titled, and whether these employees are registered or registrable social workers or not. At the time the contingency was calculated 430 employees were within scope of the claim, but on 1 July 2022, the effective date of the settlement this had increased to 492 employees. The additional employees come from a mix of new contracts involving social work, and ongoing refinement of which roles are in scope of the claim. New employees can be added up to the point of the effective date of the claim (refer recommendation 2).
- 15 The six main Funding Agencies that provide funding to the employers to deliver social services are:
- Oranga Tamariki–Ministry for Children (Oranga Tamariki)
  - Ministry of Education
  - Ministry of Social Development
  - Ministry of Justice
  - Ministry of Housing and Urban Development
  - the then District Health Boards through the Ministry of Health (since replaced by Te Whatu Ora - Health New Zealand).

- 16 A further two agencies provide or administer funding that has been used to employ one person each who undertakes social work for the employers: the Ministry of Business, Innovation and Employment and Te Puni Kōkiri (for Whānau Ora) (refer recommendation 4).
- 17 Oranga Tamariki is the Lead Funding Agency as it is the largest funder of the employees covered by this claim and has experience with the statutory social worker pay equity claim.<sup>4</sup>
- 18 The employers have indicated that they are unable to absorb the costs of settling the claim from their existing revenue. The employers have asked the Funding Agencies to increase their funding to cover these costs.

**The Funded Sector Social Work tagged operating contingency – draw down**

- 19 On 4 July 2022, Cabinet agreed to establish the Funded Sector Social Work tagged operating contingency of \$89.161 million to expire on 30 June 2023. This contingency was to cover the Funding Agencies’ increased funding for the employers to settle the claim if it cannot be met from the Funding Agencies’ baselines [SWC-22-MIN-0117 and CAB-22-MIN-0251.01]. The contingency was based on cost assumptions and modelling that included the remuneration and professional support costs described in Appendix One (refer recommendation 5).
- 20 Ministers were advised that the employers may seek funding for implementation costs, and that decisions would be sought to meet these costs through an out-of-cycle cost pressure bid.
- 21 Ministers were also advised that the bargaining parties proposed an effective date as the date the claim was lodged in August 2019. Officials had conveyed to the bargaining parties that it is not the Crown’s position to fund backdated effective dates or lump sum payments.
- 22 I am now seeking Cabinet’s agreement to draw down \$80.623 million over five years from the contingency for the Funding Agencies (refer recommendation 12) because:
- 22.1 the terms of settlement have now been agreed in principle between the parties to the claim (subject to ratification and final approval of draw down funding from the Government for the Funding Agencies to pass on to the employers)
- 22.2 the employers have calculated the final total cost of the remuneration increases to be \$80.623 million over five years. This is \$8.538 million less than the original estimate for the contingency
- 22.3 s9(2)(j)

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<sup>4</sup> The Funded Sector social work role pay equity claim follows an earlier pay equity claim settled between the PSA and Oranga Tamariki in relation to statutory social workers agreed in September 2018 [GOV-18-MIN-0038 refers]. The findings relating to the Oranga Tamariki pay equity claim have been used as a comparator for this claim as they cover similar roles and functions.



- 22.4 officials have confirmed that all options have been explored with regard to baseline reprioritisation and/or business operating model changes to partially offset the fiscal impact of any settlement on the Funding Agencies.
- 23 The final cost for remuneration increases is lower than that forecast. This difference arose primarily from individual employees being translated to lower positions on the relevant remuneration band than the modelling anticipated. That reduced the amount needed to settle the claim for those employees (refer recommendation 6).
- 24 The draw down of \$80.623 million over five years from the contingency is made up of the following amounts based on the number of employees covered by the claim who are funded by each Funding Agency (refer recommendation 14):

Agency	Amount (\$)
Manatū Hauora – Ministry of Health (previously funded by District Health Boards and MoH Other)	4,897,938
Ministry of Housing and Urban Development	4,316,815
Ministry of Education	7,924,052
Ministry of Justice	1,468,404
Ministry of Social Development	3,273,794
Oranga Tamariki	56,979,951
Ministry of Business, Innovation and Employment	25,492
Whānau Ora (Te Puni Kōkiri)	273,724
Other	1,463,216
<b>Total</b>	<b>\$80,623,386</b>

- 25 Appendix A sets out the details of how these costs have been calculated. The settlement amount includes funding for wage progression, consistent with the cost modelling assumptions considered in establishing the contingency, and was thus factored into the contingency for the settlement. I understand officials will work together on a principled approach to wage progression for the extension process, and for future pay equity claims (refer recommendations 8 and 9).
- 26 The “Other” category represents two funding sources identified by the employers for people undertaking social work that have not been traced back to a Funding Agency’s appropriation (refer recommendation 10). They are:
- philanthropic funding identified by two employers

- “pooled” resourcing (through Integrated Service Response) identified by one employer.

27 The amounts involved in both categories are summarised in the table below.

**Table 2: Non-appropriation funding of people undertaking social work**

	Settlement costs (over 5 years)	Implementation costs	s9(2)(j)
Pooled Resource	398,027	14,549	
Philanthropic	1,065,189	38,935	
<b>Total</b>	<b>1,463,216</b>	<b>53,484</b>	

28 I propose that the additional costs for these funding sources are met through the contingency (refer recommendation 11).

29 The employers will not be able to meet these additional costs, as has been established already, without impacting on existing employment arrangements within their organisations.

30 In the case of philanthropic funding, the employers are unable to seek additional funding given the prescribed nature of the existing funding, the timing within which funding can be sought, or that the remainder of fundraised amounts have already been committed to other projects.

31 In the case of pooled resources, the contributions across participating agencies would need to be resolved, which may put strain on the existing relationships. The scale of the funding involved means it may cost more to arrive at and administer a solution than would be saved.

32 As noted in the previous Cabinet paper, officials used an effective settlement date of 1 July 2022 for the purposes of calculating the contingency funding sought by the Funding Agencies, which has been agreed by the parties to the claim. This will be the commencement date for the application of the new employment terms and conditions for the employees. The remuneration increases for employees will be backdated to 1 July 2022.

s9(2)(j)

33 s9(2)(j)

34 As noted in the Cabinet paper that established the contingency [SWC-22-MIN-0117 and CAB-22-MIN-025], officials have conveyed to the bargaining parties that it is not

the Crown's position to fund backdated effective dates or lump sum payments. The bargaining parties in response have identified examples where payments have been made, albeit for particular reasons that reflect the individual circumstances of the claims (refer recommendations 22 and 27.2).

35 s9(2)(j) [Redacted]

[Redacted]

[Redacted]

36 s9(2)(j) [Redacted]

37 s9(2)(j) [Redacted]

38 s9(2)(j) [Redacted]

[Redacted]

[Redacted]

**Between-Budget contingency draw down for implementation costs**

39 I previously advised Cabinet in July 2022 that the Funding Agencies will be seeking \$3.233 million from between-Budget funding to pass on to the employers to meet

their indirect implementation costs to settle the claim [SWC-22-MIN-0117 and CAB-22-MIN-025]. These costs include:

- adjustments to the cash reserves needed as a three-month contingency for operations,<sup>5</sup>
- making changes to payroll and employment contracts.

40 The employers have indicated they cannot meet this cost from their existing revenue, and they will be unable to implement the settlement fully and in a timely fashion without this financial support (refer recommendation 17).

41 Further work has now been done to determine the exact amount sought by the Funding Agencies from between-Budget funding to meet the implementation costs of the claim of the employers. This has been determined as \$2.952 million. The difference between the forecast and actual amount is driven by the lower total remuneration costs explained at paragraph 23. The majority of the implementation costs is for increases to cash reserves held by the employers to meet three months' worth of operating expenditure (refer recommendation 18).

42 These costs are outside of the scope of this claim so must be met through existing baselines or through between-Budget funding.

**Draw down sought for implementation costs** s9(2)(j)

43 Officials have confirmed that all options for baseline reprioritisation and/or business operating model changes to partially offset the fiscal impact of the implementation costs, s9(2)(j) on the Funding Agencies, have been explored. I recommend that because the total amount cannot be met within baselines, these one-off amounts be transferred to an appropriate Vote within Oranga Tamariki as:

43.1 between-Budget funding in the case of the implementation costs

43.2 s9(2)(j)

44 Oranga Tamariki will pass these amounts on to the employers on behalf of all the Funding Agencies to meet the implementation costs of the claim, s9(2)(j) (refer recommendations 19 and 29).

**Future proofing the pay equity gains for employees covered by the claim**

45 The settlement will be implemented in two-steps:

45.1 in the first year, a grant will be paid to each employer that will cover: the actual difference between current and post-settlement levels of remuneration; provision for professional support; implementation costs, s9(2)(j)

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<sup>5</sup> Three months reserves is the amount required by Te Kahui Kahu to be held by an organisation to meet its contractual requirements which, in this case, is to cover redundancies in employment contracts (which are usually a three month period).

Appendix A outlines how these amounts were calculated

- 45.2 for subsequent years, Funding Agencies will review existing funding models and update them to reflect the new rates of remuneration and professional support.
- 46 There are four mechanisms that will provide assurance that employers will pass on the funding received to employees as follows (refer recommendation 32):
- 46.1 officials will stipulate in the grant that transfers funding to the employers that it is for the purpose of meeting the terms and conditions of the settlement, consistent with the cost model that the employers provided officials
- 46.2 the grant will require employers to report back on the application of the funding
- 46.3 under the Act, the effect of a settlement is to automatically vary the terms and conditions under which people in scope of the claim are employed. That will ensure the employees receive the additional remuneration and support agreed to in the settlement
- 46.4 under Milestone 7 of the funded framework Te Kawa Mataaho has a centralised role to ensure the value of pay equity settlements are maintained, so they will include this settlement in that process.
- 47 Officials recognise that the review of funding models by Funding Agencies, required by the extension process described below, will be an opportunity to adopt more consistent approaches to funding the social services sector, including for the settlement of this claim. The benefits of this approach include the ability to allow for any future adjustments to maintain the value of the settlement, as set out in the Act. Further details on the benefits of this approach are explained in Appendix A.
- 48 The review of funding models will also provide an opportunity to engage the sector on the funding available for professional support and arrive at a more consistent and visible approach to the funding that can be agreed across Funding Agencies.
- 49 The Social Services Commissioning Action Plan includes work beginning this year to improve funding models as part of a relational approach to commissioning. This work will consider the implications of pay equity settlements as well as the opportunity to make other improvements over time.
- 50 I understand that should Funding Agencies be unable to adjust their funding models in time for the start of the next financial year, then they will collectively need to recalculate the second-year costs of settlement with the employers and provide another round of grant payments to them.
- 51 It will be important that future budget bids that involve people undertaking social work provide for the terms of this settlement.

**Extending the outcomes of the pay equity claim to the wider sector**

- 52 Cabinet agreed to a process by which the outcome of this claim could be extended to the wider sector, once an appropriate validation process has been run [GOV-21-MIN-0032]. It was agreed that the Commission Pay Equity Taskforce will lead that process and report back to Cabinet in the first quarter of the 2023/24 financial year (refer recommendation 33).
- 53 Officials are working closely with the Commission to realise efficiencies in the parallel work for extension of the settlement to the wider sector.
- 54 Cabinet also directed the Commission to report back to the Ministerial Oversight Group on State Sector Employment Relations and the Ministry of Business, Innovation and Employment on the potential impact of the extension of the claim settlement on other pay equity claims [CAB-22-MIN-0251.01].
- 55 When reporting to Cabinet on the extension of the settlement, the Commission will update Ministers on the process for people undertaking work that is substantially similar to social work in the funded sector who are not registered as a social worker. This includes what strengthening of the regulatory environment and recognition of public safety may be required, and the timeframe for that.
- 56 The Commission will carry out this work in consultation with the Social Workers Registration Board and the Ministry of Social Development, and with the support of social service funding agencies (refer recommendation 34).

**Next steps**

- 57 Subject to Cabinet agreement (refer recommendation 18):
  - 57.1 the first year amount of \$13.593 million in FY23 for the settlement costs will be transferred from the contingency to the relevant appropriation in Vote Oranga Tamariki
  - 57.2 the amounts for the settlement costs for second and subsequent years (not able to be funded through baselines) being \$67.031 million over the period 2023/24 to 2026/2027 and outyears will be drawn down from the contingency to all the relevant Funding Agencies' appropriations
  - 57.3 the one-off amount for the total implementation costs of \$2.952 million that is not able to be met through baselines will be allocated to the relevant appropriation in Vote Oranga Tamariki from between-Budget funding
  - 57.4 s9(2)(j) 
- 58 Oranga Tamariki will give effect to the payment to each employer as a grant. The funding for subsequent years will be managed through the existing funding and contracting mechanisms, adjusted to provide for the higher level of remuneration and professional support (where such support is not already provided for). Further details are provided in Appendix A.

59 The Commission, with Treasury and the parties to the claim, will progress the work required under the Funded Framework<sup>6</sup> to validate how much of the workforce across the wider sector is undertaking the same or substantially similar work. The Commission will then prepare a Cabinet paper considering the scope and options for extension of the benefits of the settlement to the same or substantially similar workforce across the wider NGO government funded sector as noted in paragraphs 52 to 56.

### Financial Implications

60 The Minister of Finance decided that funding sought for pay equity claims can be considered outside of the usual Budget cycle. This decision reflects both the unavoidable nature of the cost-pressures associated with implementing a pay equity settlement, and the administrative difficulty of setting potential funding contingencies for each claim during the preceding Budget round.

61 Treasury prepares and includes estimated cost impacts of pay equity settlements in each Economic and Fiscal Update. This allows for the anticipated impacts of any additional funding to be managed outside of Operating Allowances, while remaining consistent with the Government's Fiscal Strategy.

62 When a pay equity contingency is set up and then drawn down, the funding does not come from any allowances but instead is a debt incurred with an impact on operating balance before gains and losses (OBEGAL).

63 The draw down of funding sought now is:

- **\$80.623 million over five years** – from the Funded Sector Social Work tagged operating contingency for remuneration and indirect costs of settling the claim
- s9(2)(j) 
- **\$2.952 million in FY2022/23** – from between-Budget contingency funding for Oranga Tamariki to be able to reimburse the employers for the one-off implementation costs of the settlement.

64 This Cabinet paper establishes a new bespoke appropriation within Vote: Oranga Tamariki to facilitate single payments by Oranga Tamariki on behalf of all Funding Agencies to each of the five employers. The current appropriations within that vote

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<sup>6</sup> In August 2020, Cabinet agreed to a framework for oversight and support of pay equity claims in the Funded Sector (the Funded Framework) [GOV-20-MIN-0033 refers]. The use of the Funded Framework is designed to ensure that Funding Agencies provide consistent oversight of claims processes, which supports enduring outcomes across the sector. Funding Agencies are **not** to undertake any part of the claim work, analysis, or investigation themselves. In addition, Funding Agencies are required to **not** act as the employer, or approve remuneration corrections, or provide any guarantee of funding outcomes (i.e. assume any fiscal liability for the settlement outcome).

did not allow for payments for services funded by other agencies (refer recommendation 13).

### **Legislative Implications**

65 No new or amended legislation is proposed in this paper.

### **Impact Analysis**

66 A regulatory impact analysis does not apply to the proposals in this paper.

### **Te Tiriti o Waitangi implications**

67 Māori disproportionately access social work or substantially similar services so there is a responsibility for the Crown to ensure that these sectors operate in a way that encourages Māori providers to deliver services in a way that meets the needs of Māori.

68 The settlement of the claim will enable the people who undertake social work to be remunerated in a way that reflects the value of their work. It will enable NGOs that employ them (including iwi and Māori organisations) to offer them competitive rates of remuneration. This is expected to result in improved services for tamariki and their whānau who need that support, and so lead to better outcomes for them.

69 The inclusion of Ngāpuhi Iwi Social Services as one of the five employers means that specific consideration has been given to the role that kaimahi Māori play in providing support to tamariki Māori and their whānau, and to ensure that their work is fairly remunerated relative to Oranga Tamariki social worker roles in the comparator group.

70 The process of extending this settlement will provide further opportunity to recognise the same or similar work across other social service organisations, including iwi and Māori organisations.

### **Further Implications of the Claim**

71 The Cabinet paper *Pay Equity Claim for Social Work in the Funded Sector* considered at Cabinet on 4 July 2022 [SWC-22-MIN-0117 and CAB-22-MIN-0251.01] included sections on climate change, population, human rights, and gender implications of the claim, as well as a disability perspective. Those sections have not been repeated in this Cabinet paper as they are unchanged, do not relate to the claim itself, and are not relevant to the draw down of funding that is the subject of this Cabinet paper.

72 Te Mahere Whai Mahi Wāhine, Women's Employment Action Plan (the Plan) was launched on 30 June 2022. This settlement supports progress on improving financial sustainability for women as detailed in the Plan which identifies support for pay equity in the public, funded and private sectors as a key focus area for taking action.

### **Consultation**

73 The following agencies were consulted on the paper: ACC; Department of Corrections; Department of Internal Affairs; Manatū Hauora - Ministry of Health; Ministry for Culture and Heritage; Ministry for Ethnic Communities; Ministry for

Pacific Peoples; Ministry for Women; Ministry of Education; Ministry of Housing and Urban Development; Ministry of Justice; Ministry of Social Development; Office for Disability Issues; Te Arawhiti; Te Kawa Mataaho Public Service Commission; Te Puna Aonui; Te Puni Kōkiri and The Treasury. The Department of Prime Minister and Cabinet was informed.

### Communications

- 74 The parties to the settlement will want to publicise the settlement and are contemplating a ceremony to which media will be invited. My office will liaise with the bargaining parties to manage the Crown's interests in the settlement.

### Proactive Release

- 75 I do not intend to proactively release this paper in whole or part, given it deals with matters that are the subject of bargaining and is therefore under active consideration and commercially sensitive.

### Recommendations

The Minister for Children recommends that the Committee:

- 1 **note** that in August 2019, the Public Service Association Te Pūkenga Here Tikanga Mahi (the PSA) raised a pay equity claim (the claim) for 430 employees of five non-government organisations (the employers) who are in social work type roles (refer paragraph 13)
- 2 **note** that this claim now covers 492 employees as an additional 62 positions in the organisations who are party to the claim have either commenced working for an employer before the effective date of the settlement, or have been determined by the employers as in scope for the claim (refer paragraph 14)
- 3 **note** that the five organisations who are party to the claim are (refer paragraph 1):
  - Stand for Children's Services Tū Maia Whānau
  - Ngāpuhi Iwi Social Services
  - Wellington Sexual Abuse HELP
  - Christchurch Methodist Mission
  - Barnardos New Zealand
- 4 **note** that six Government agencies are the primary funders of the employers and a further two agencies provide or administer small amounts of funding (refer paragraphs 15 and 16):
  - Oranga Tamariki–Ministry for Children (Oranga Tamariki)
  - the Ministry of Education
  - the Ministry of Social Development
  - the Ministry of Justice
  - the Ministry of Housing and Urban Development

- the then District Health Boards through the Ministry of Health since replaced by Te Whatu Ora – Health New Zealand
- the Ministry of Business, Innovation and Employment
- Te Puni Kōkiri (for Whānau Ora)

5 **note** that on 4 July 2022, Cabinet [SWC-22-MIN-0117 and CAB-22-MIN-0251.01] (refer paragraph 19):

5.1 agreed to establish a Funded Sector Social Work tagged operating contingency (the contingency) of \$89.161 million to expire on 30 June 2023 to cover the Funding Agencies’ increased funding for the employers to settle the claim if it cannot be met from Funding Agencies’ baselines as follows:

	\$ million				
	2022/23	2023/24	2024/25	2025/26	2026/27 & Outyears
<b>Funded Sector Social Work Tagged Operating Contingency</b>	15.454	16.069	17.749	19.307	20.582

5.2 noted Funding Agencies may be seeking an additional estimated \$3.233 million (to be charged against allowances or met through baselines) to pass on to the employers to meet their indirect implementation costs to settle the claim (now assessed as \$2.952 million as per recommendation 18)

6 **note** that (refer paragraphs 22 and 23):

6.1 the final pay equity settlement has now been agreed between the parties (the PSA, on behalf of the employees, and the employers) subject to the draw down from the contingency

6.2 the employers have calculated the final total cost of the remuneration increases as \$80.623 million over five years, which is \$8.538 million less than the estimate for the contingency.

*Settlement costs*

7 **note** that the settlement amount includes funding for wage progression, consistent with the cost modelling assumptions considered in establishing the contingency, and was thus factored into the contingency for the settlement (refer Appendix A)

8 **note** the reason for including wage progression is particular to the need in this settlement to ensure alignment with the Oranga Tamariki social worker remuneration model as the comparator workforce (refer paragraph 25)

9 **note** officials will work together on a principled approach to wage progression for the extension process, and for future pay equity claims (refer paragraph 25)

10 **note** that the funding sources for people who undertake social work include philanthropic funding and a multi-agency initiative (\$1.463 million over five years) where it is impractical or inefficient to source additional funding to support the increased remuneration costs from the settlement (refer paragraphs 26 and 27)

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11 **agree** that for the purposes of the settlement of this claim and given the small amount of funding involved that (refer paragraphs 28 to 31):

11.1 the additional costs (for remuneration, professional support, implementation costs s9(2)(j) should they be agreed) for services funded from philanthropic and a multi-agency sources be met from the contingency and between-Budget contingency draw downs

11.2 the funding be, managed in the interim through Oranga Tamariki

12 **agree** to the draw down of \$80.623 million from the contingency agreed to by Cabinet to enable the Funding Agencies to increase funding for the employers who are party to the claim (refer paragraph 22)

13 **agree** to establish the following new non-departmental appropriation (refer paragraph 64)

Vote	Appropriation Minister	Title	Type	Scope	Performance Measure
Oranga Tamariki	Minister for Children	Pay equity claim for social workers employed by agencies funded by the Crown	Non Departmental Output Expense	This appropriation is limited to support the Pay Equity claims for social workers that are employed by agencies funded by the Crown. The claims have been raised by the Public Service Association in accordance with the Funded Framework. This amount is to fund the first-year costs of remuneration changes, implementation costs for employers s9(2)(j)	Performance reporting information is exempt as per section 15D 2(b)(ii) of the Public Finance Act

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- 14 **approve** the following changes to appropriations to give effect to the policy decision in recommendation 12 with a corresponding impact on the operating balance and net Crown debt (refer paragraph 24)

	\$m increase/(decrease)				
	2022/23	2023/24	2024/25	2025/26	2026/27 and outyears
<b>Vote Health Minister of Health</b>					
<b>Non-Departmental Output Expense</b> Delivering Primary, Community, Public and Population Health Services	-	0.899	0.984	1.069	1.122
<b>Vote Housing and Urban Development Minister of Housing</b>					
<b>Public Housing MCA Non-Departmental Output Expense</b> Services for people in Need of or at risk of Needing Public Housing		0.536	0.595	0.655	0.688
<b>Transitional Housing MCA Non-Departmental Output Expense</b> Transitional Housing Services	-	0.257	0.272	0.287	0.301
<b>Vote Education Minister of Education</b>					
<b>Outcomes for Target Student Groups MCA Departmental Output Expense</b> Interventions for Target Student Groups (funded by revenue Crown)	-	1.454	1.591	1.729	1.815
<b>Vote Courts Minister for Courts</b>					
<b>Non-Departmental Other Expense</b> Court and Coroner-Related Costs	-	0.270	0.295	0.320	0.336
<b>Vote Social Development</b>					
<b>Minister for Social Development and Employment</b>  <b>Improved Employment and Social Outcomes Support MCA Departmental Output Expense</b>  Improving Work Readiness Outcomes (funded by revenue Crown)	-	0.156	0.170	0.185	0.194

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	\$m increase/(decrease)				
	2022/23	2023/24	2024/25	2025/26	2026/27 and outyears
<b>Community Support Services MCA Non-Departmental Output Expense</b> Supporting Victims and Perpetrators of Family and Sexual Violence	-	0.368	0.402	0.437	0.459
<b>Community Support Services MCA Non-Departmental Output Expense</b> Community Support and Advice	-	0.031	0.034	0.037	0.038
<b>Minister of Housing Departmental Output Expense</b> Services to Support People to Access Accommodation (funded by revenue Crown)	-	0.047	0.051	0.056	0.058
<b>Vote Māori Development</b>					
<b>Non-Departmental Output Expenses:</b> Whakamahi i ngā Huanga a Whānau Ora   Commissioning Whānau Ora Outcomes	-	0.050	0.055	0.060	0.063
<b>Vote Oranga Tamariki Minister for Children</b>					
<b>Investing in Children and Young people MCA Departmental Output Expense</b>  Statutory Intervention and Transition (funded by revenue Crown)	-	1.502	1.643	1.785	1.874
Prevention and Early Support (funded by revenue Crown)	-	9.225	10.093	10.968	11.515
<b>Non-Departmental Output Expense:</b>  Pay equity claim for social workers employed by agencies funded by the Crown	13.593	-	-	-	-
<b>Total operating contingency drawdown</b>	<b>13.593</b>	<b>14.793</b>	<b>16.185</b>	<b>17.588</b>	<b>18.465</b>

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15 **agree** that the changes to appropriations in 2022/23 be included in the 2022/23 Supplementary Estimates, and in the interim, the increase be met from Imprest Supply

16 **agree** the expenses incurred under recommendation 14 be charged against the Funded Sector Social Work Tagged Operating contingency described in recommendation 5

*Implementation costs*

17 **note** that the employers have sought funding to meet the one-off implementation costs of the settlement as they are unable to meet these costs directly, and will be unable to implement the settlement fully or a timely fashion without this support (refer paragraphs 39 to 40)

18 **agree** that a one-off amount of \$2.952 million be transferred to Vote Oranga Tamariki (Non-Departmental Output Expenses Pay equity claim for social workers employed by agencies funded by the Crown) as between-Budget funding for Oranga Tamariki to pass on to the employers on behalf of all the Funding Agencies to meet the implementation costs of the claim (refer paragraphs 41 and 57)

19 **approve** the following changes to appropriations to give effect to the policy decision in recommendation 18 above with a corresponding impact on the operating balance and net Crown debt (refer paragraphs 43 and 44)

	\$m increase/(decrease)				
	2022/23	2023/24	2024/25	2025/26	2026/27 and outyears
<b>Vote Oranga Tamariki</b> <b>Minister for Children</b> <b>Non Departmental Output Expense:</b> Pay equity claim for social workers employed by agencies funded by the Crown	2.952	-	-	-	-

20 **agree** that the changes to appropriations in 2022/23 be included in the 2022/23 Supplementary Estimates, and in the interim, the increase be met from Imprest Supply

21 **agree** the expenses incurred under recommendation 19 above be charged against the between-Budget contingency, established as part of Budget 2022

s9(2)(j) [REDACTED]

22 **note** that on July 2022, Cabinet [SWC-22-MIN-0117 and CAB-22-MIN-0251.01] was advised that the bargaining parties were proposing an effective date of August

2019 for the claim, and that officials had communicated that it was not Government policy to fund periods prior to the settlement of the claim (refer paragraph 34)

23 s9(2)(j) [Redacted]

24 s9(2)(j) [Redacted]

25 s9(2)(j) [Redacted]

26 s9(2)(j) [Redacted]

27 s9(2)(j) [Redacted]

28 s9(2)(j) [Redacted]

29 s9(2)(j) [Redacted]

s9(2)(j) [Redacted]

30 s9(2)(j) [Redacted]

31 **note** that once the drawdown of funding from the contingency as set out in recommendations 12 and 28 have been made the contingency be closed and no further funding will be available through the contingency

32 **note** that there are multiple mechanisms that will provide assurance that employers will pass on the funding received to employees, including that under Milestone 7 of the funded framework Te Kawa Mataaho has a centralised role to ensure the value of pay equity settlements are maintained, so they will include this settlement in that process (refer paragraphs 46 to 49)

33 **note** that Cabinet agreed a process by which the outcome of this claim could be extended to the wider sector once an appropriate validation process has been run, and that the Te Kawa Mataaho Public Service Commission (the Commission) Pay Equity Taskforce will lead that process and report back to Cabinet in November 2022 (refer paragraphs 52 to 53)

34 **note** that the Commission in its reporting to Cabinet on the extension of the settlement of this claim will update Ministers on approaches to people undertaking work that is substantially similar to social work in the funded sector who are not registered as a social worker, including what strengthening of the regulatory environment and recognition of public safety may be required, and the timeframe for that (refer paragraphs 54 to 56).

Authorised for lodgement

Hon Kelvin Davis  
Minister for Children

## APPENDIX A Calculation of the cost of settlement

### *Summary of the settlement*

The settlement provides for:

- a single remuneration framework (aligned to the Oranga Tamariki social worker remuneration framework) for people undertaking social work of substantially similar work. That framework includes four categories of work:
  - roles requiring registered social workers
  - roles that are the same as or substantially similar to social workers
  - roles that require the use of social work skills
  - leaders of practice roles
- a process for “translating” staff from a position in a current remuneration framework to the appropriate position in the relevant band in the new framework
- progression through all bands on the basis of time and experience, unless there is a documented formal performance plan in place
- provision of professional support in the form of meeting registration and membership fees, professional and cultural supervision, and professional development.

The costing of these components is described below.

### *Year one calculations*

The contingency was based on estimates for three types of costs: remuneration, professional support and implementation costs. The settlement necessitates the calculation of these costs for each employer, and for these to be assigned to a particular appropriation for each agency that funds those employers. Each Funding Agency has then agreed with Treasury whether those additional costs can be met from within the agency’s baseline or will need to be met through either the contingency (for remuneration and professional support costs), or through the between-Budget contingency (for implementation costs).

For the first year, the Funding Agencies have agreed that Oranga Tamariki will draw down s9(2)(j)

into a bespoke appropriation. Oranga Tamariki will then make each employer a single grant to cover these costs as a way of minimising transaction costs for employers and Funding Agencies. To enable Oranga Tamariki appropriations to have sufficient funds to cover these total costs, the Cabinet paper provides for:

- the first-year contingency funds to be drawn down directly into an Oranga Tamariki appropriation for those costs that cannot be met through a Funding Agency’s baseline
- the total between-Budget funding required for implementation costs (that cannot be met through agencies’ baseline) to be added to an Oranga Tamariki appropriation

In terms of how these costs have been calculated:

- For **remuneration costs**: the employers confirmed where each employee would be positioned in one of four salary bands under the new, single remuneration framework. The difference between this remuneration level and the current remuneration across all employees was calculated for the first year. These costs were then allocated across the

different services funded by different Funding Agencies based on information provided by the employers to determine the proportion of the employees' salaries met by the various funding agencies

- For **professional support costs**: the bargaining parties settled on a per employee provision for three forms of professional support: professional registration and membership fees (\$788 per annum), professional and cultural supervision (\$3,500) and professional development and training (\$1,000) per annum. These are commensurate with professional support for Oranga Tamariki social workers.

Funding Agencies and employers reviewed what, if any, provision for professional support could be identified in existing funding and support arrangements, and were able to identify certain service types where it can be agreed that no provision is made, and certain service types where it is explicit that there is provision for some or all of those costs. For the remainder it was agreed that the full provision would be made in the funding for the settlement. The planned review of funding models (see below) will provide clarity about the support available through these models for professional support. In the interim, the employers will formally acknowledge that they will not use the treatment here as any kind of basis for those discussions about the reasonableness of the existing provisions.

- For **implementation costs**: the basis for one-off implementation costs remains unchanged from the contingency paper. The amount for the adjustment for reserves has decreased as the total remuneration amount has also reduced.

As pay “progression” is a feature of the Oranga Tamariki remuneration framework for social workers, the parties have replicated it for the purposes of the settlement. Progression is where employees are able to move up one level per annum of the salary band they are on until they reach the top of that band. The annual increments are a known and committed cost of the settlement, and are important to maintaining comparability with Oranga Tamariki social workers. Therefore, they have been included in the amounts sought for the draw down for each agency accessing the contingency fund in the second and subsequent years.

### ***Funding in the second and subsequent years***

For the second and subsequent years, officials will review existing funding models and update them to reflect the new rates of remuneration and professional support. As explained below, the cost model allows for most of the calculation of the cost to be made based on current actual employees and salaries. For the second and out years, the draw down amount assumes the current staff continue to be employed and progress from their current level of remuneration up their bands, consistent with the remuneration framework for Oranga Tamariki social workers. It will be cumbersome and inefficient to recalculate the amounts on a per employee basis on an ongoing basis. It would also be impractical to use a per employee approach once the benefits of the settlement are extended to others undertaking the same or substantially similar work in the sector. Instead, officials will review the funding models for the services that the employers are funded for that enable them to employ people to undertake social work. The benefits of this approach are that funding models:

- can make explicit provision for remuneration, and forms of professional support
- can be adjusted to allow for changes in how social work or work like it is being valued in the comparator group, or to take account of other factors

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- operate across employers so can be a vehicle for extending the benefits of the settlement to a wider group of employers
- allow for the level of funding to be varied to reflect changes in the numbers of employees undertaking social work, while still maintaining the value of the settlement for those within the claim (as is required by the Fair Pay Act) and the value of the benefits for the rest of the sector.

Each Funding Agency will also be able to review this baseline funding from year to year to allow for different numbers of employees.

Should the Funding Agencies be unable to adjust their funding models in time for the start of the next financial year, they will collectively need to recalculate the second-year costs of settlement with the employers and provide another round of grant payments to them.