

Pay equity factsheet

Care and Support Workers

(Pay Equity) Settlement Agreement

December 2017

On 18 April 2017, the Government announced an historic \$2 billion pay equity settlement for care and support workers in New Zealand's aged and disability residential care and home and community support services.

The settlement redresses past undervaluation of care and support work, which is mainly carried out by women.

As well as increasing the wages of workers, making a real difference to their lives, the settlement improves access to training which is expected to result in a more highly skilled workforce and better care for New Zealanders.

Background

1. What is the Care and Support Workers (Pay Equity) Settlement Act?

The Act enshrines the Care and Support Workers (Pay Equity) Settlement Agreement in law and ensures providers pass on \$2 billion of wage increases over five years to the 55,000 workers in aged and disability residential care, and home and community support services around the country.

2. Why was the Act passed?

The settlement originates from the TerraNova pay equity claim brought by E tū (previously the Service and Food Workers Union) on behalf of care worker Kristine Bartlett. The claim argued that there was systemic undervaluation of care and support work because it was mainly performed by women.

The Government decided to seek to resolve the case out of the courts through negotiations and to include home care and disability sector workers as well as aged residential care workers in the settlement.

Resolution of the claim and enactment of the settlement removes wage discrimination based on gender for 55,000 care and support workers.

It also removes any liability for employers to compensate care and support workers for historic issues of systemic gender discrimination and extinguishes the right of those same workers to make future pay equity claims against their employer for a five-year period.

3. Who were the negotiating parties?

Parties to the negotiations were the Ministry of Health, ACC, and District Health Boards, E tū (formerly the Service and Food Workers Union), the Public Service Association (PSA), and the New Zealand Nurses Organisation (NZNO). The Council of Trade Unions (CTU) was also involved.

While employers were represented in the negotiations by the Aged Care Association, Home and Community Health Association, and New Zealand Disability Support Network, they were not a party to the settlement agreement which is between the Crown and unions.

4. How pay equity helps

- The Act removes wage discrimination based on gender for 55,000 care and support workers.
- The increased wage rates are expected to help with recruitment and retention of workers which means better continuity of care for clients and a more stable workforce overall, especially important for New Zealand's ageing population.
- The Act links pay rates to qualifications which will encourage care and support workers to increase their qualifications, meaning that over time, New Zealand will have a more highly trained workforce.

New wage structure for care and support workers (employed as at 30 June 2017)

Length of Service	Qualification*	Pay Band	1 July 2017 Year 1	1 July 2018 Year 2	1 July 2019 Year 3 & 4	1 July 2021 Year 5
<3 years' service OR	Level 0	L0	\$19.00	\$19.80	\$20.50	\$21.50
3+ to 8 years' service OR	Level 2	L2	\$20.00	\$21.00	\$21.50	\$23.00
8+ to 12 years' service OR	Level 3	L3	\$21.00	\$22.50	\$23.00	\$25.00
12+ years' service OR	Level 4	L4b	\$23.50	\$24.50	\$25.50	\$27.00

- * The qualification must be, or assessed by Careerforce as equivalent to, a Level, 2, 3 or 4 New Zealand Certificate in Health and Wellbeing from an NZQA-accredited provider.

5. Other conditions of employment

Generally, all other conditions of employment remain the same. However, service and qualification allowances have been extinguished because they have been replaced by the new qualifications-based pay structure. Weekend and penal rates in employment agreements remain but those that are calculated as a percentage of base pay are converted to a dollar amount.

Funding

6. How is the settlement funded?

The increased costs for employers of care and support workers are funded in three ways:

- The Government is providing \$2.048 billion over five years by increasing funding of District Health Boards (DHBs) and the Ministry of Health: Disability Support Services (DSS). In turn DHBs and DSS are increasing their payments to providers that employ care and support workers.
- Aged care residents with assets over the threshold for the government subsidy are paying an increased 'maximum contribution' as result of the increase in the rest home price.
- ACC is funding providers of services to its clients.

7. Will the funding come from DHB baselines or additional Crown funding?

The additional \$2.048 billion the Government is providing over five years is being funded primarily through additional funding to the health sector and will not impact on health funding or the provision of frontline health services in other areas.

Increased costs due to normal wage pressures, volume increases or overhead increases need to be met from existing health sector funding and are discussed in price setting negotiations between DHBs and service providers.

8. What does the funding cover?

The funding covers wage increases, other costs (on-costs) incurred because of the introduction of pay equity including higher leave costs, KiwiSaver contributions and ACC levies, and training.

9. What are on-costs and are they funded?

On-costs are direct costs that need to be paid in addition to paying an employee's salary or wages. They include annual and sick leave, statutory holidays and payment at time and a half for work on a public holiday, KiwiSaver and ACC levies. Funding to support training is also included.

On-costs are calculated and funded as a percentage per full time equivalent employee (FTE).

The additional \$2.048 billion the Government is providing over five years to fund the pay equity settlement includes on-costs of 21.7 percent per FTE and covers:

- 20 days annual leave
- 11 days statutory holidays
- 5.5 days for time worked on statutory holidays
- 5 days sick leave
- 0.8 percent contribution to training
- 3 percent KiwiSaver employer contribution
- 2 percent for ACC levies.

The on-costs funding employers receive may be greater than the actual payments an employer needs to make because on-cost funding assumes every employee works on every statutory holiday, uses their maximum statutory sick leave entitlement and is a member of KiwiSaver and contributing at the maximum rate. On-cost funding is ongoing and increases as the employee's wages increase.

10. What is leave liability and is it being funded?

When a worker is on leave, they need to be paid their current wage and the employer needs to take this into account in the price charged for the services the worker delivers. Leave liability is the dollar value of annual leave and other leave entitlements, plus leave in lieu for working on a public holiday, that a worker is entitled to take but has not yet taken.

It is recorded on the employer's balance sheet as a liability because it is money the worker must be paid when they take the leave or resign. When the worker takes the leave, their wage rate may be more than it was when they became entitled to the leave. This is more

likely to occur if an employee doesn't take leave and saves it up for a long break or to receive as a cash payment at the end of their employment.

The pay equity settlement significantly increased wage rates for care and support workers from 1 July 2017 and this means that employers' leave liability as at 30 June 2017 has increased.

While there is no legal requirement for the Crown to do so, the Ministry of Health agreed to make a significant contribution towards meeting the cost of the increased leave liability for employers. Funding has been provided to meet the increased leave liability for every care and support worker as at 1 July 2017 up to a maximum of 160 hours (four weeks).

Funding for a worker's leave entitlement from 1 July 2017 is included in the 21.7 percent pay equity settlement on-cost funding. Increases in leave liability arising from increases on 1 July 2018 and beyond will not be funded. The expectation is that employers and employees work together to ensure that employees have the opportunity to use their annual leave so that any increased leave liability costs are minimised.

Eligibility

11. Eligibility

The pay equity settlement covers care and support workers employed by providers funded by the Crown, District Health Boards or by ACC who work in the areas of:

- aged residential care (includes care for some ACC and Ministry of Health clients under 65 who require rest-home level care or have high and complex needs for up to 24 hours a day);
- community residential living (these services are generally known in the disability and support sector as day programmes, day services, residential services for disability support, facility-based respite, supported living and choices in community living); and
- home and community support services, including for residents who are in an independent living setting, in a retirement village.

A multi-step decision process is used to assess the eligibility of any particular worker:

1. Determine whether the service is covered by the settlement agreement; and
2. Test whether the worker is within scope of the settlement agreement.
3. Establish that the service is funded by public monies.

Implementation

12. How is the settlement funding distributed to aged residential care providers?

Aged residential care provider representatives (New Zealand Aged Care Association and Care Association of New Zealand), the Ministry of Health and DHBs, agreed in discussions in May 2017, that the additional funding would be delivered through an increase to the price paid for nationally contracted residential care services (rest home, hospital, dementia and psycho geriatric).

The mechanism for incorporating pay equity into the aged-related residential care services agreement resulted in some providers receiving more funding than their direct pay equity costs and a smaller number less.

DHBs are the first point of contact for providers who have any concerns about the financial impact of pay equity. The Ministry has been collecting information relating to the workforce make-up of providers and this is being used to help work through these concerns.

To assist those providers with a material deficit due to the incorporation of pay equity funding in their contract, the Government has put in place a one-off transitional support fund. Providers given this support are required to develop a transition plan to ensure they can continue to operate within the new pay equity environment.

13. How is the settlement funding distributed to home and community support services and community and residential living providers?

Pay equity funding for home and community support services and community and residential living providers is based on actual increased wage costs and delivered through advance payments.

Any difference between the actual increased wage costs resulting from pay equity and the advance payments will be returned to or recovered from providers in a regular reconciliation process.

After July 2018 the increased wages will be incorporated in the contracts between providers and their funders.

14. The model for paying Individualised Funding

The Ministry has increased the budgets of Individualised Funding users specifically to meet the obligations of pay equity. The increases have been calculated to match the predicted average increase of funding required by home and community support services providers to fund the pay equity wage increases.

15. Impact on aged residential care clients

As a result of the settlement and the annual increase for general cost pressures, the price residents in aged care facilities with assets above the threshold pay increased by an average of 9.9 per cent on 1 July 2017.

The price increase was signalled when the pay equity settlement was announced in April and confirmed at annual contract negotiations between DHBs and providers in May.

This higher care cost does not represent an ongoing barrier to care, as when a resident is aware their assets are approaching the asset threshold, they can apply for an income and asset assessment from Work and Income to determine eligibility for a Residential Care Subsidy to contribute towards the cost of their care.

The Ministry, DHBs, providers, and consumer representatives are undertaking a funding model review for aged residential care over the next year which will look at how to provide incentives to keep future cost increases to a minimum.

16. How will the Ministry of Health ensure providers are paying their employees the new wages

The Ministry is carrying out random and planned audits to ensure the new wages are being paid.

For more information visit www.health.govt.nz

