



COVERSHEET

Minister	Hon Brooke van Velden	Portfolio	Workplace Relations and Safety
Title of Cabinet paper	Reforming employment leave legislation	Date to be published	23 September 2025 2pm

List of documents that have been proactively released

Date	Title	Author
August 2025	Reforming employment leave legislation	Office of Workplace Relations and Safety Minister
13 August 2025	Reforming employment leave legislation ECO-25-MIN-0124 Minute	Cabinet Office

Information redacted

YES

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Some information has been withheld for the reasons of confidential advice to Government and legal professional privilege.



Cabinet Economic Policy Committee

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Reforming Employment Leave Legislation

Portfolio **Workplace Relations and Safety**

On 13 August 2025, the Cabinet Economic Policy Committee:

Background

- 1 **noted** that:
 - 1.1 in December 2024, Cabinet noted that the Minister for Workplace Relations and Safety (the Minister) had asked officials to design a leave system based on a core system using hours-based accrual for annual leave, and invited the Minister to report back by mid-2025 to seek final policy decisions [CAB-24-MIN-0488];
 - 1.2 in line with the above, the proposals in the paper under ECO-25-SUB-0124 take a new approach to reforming the Holidays Act 2003 (the 2003 Act), prioritising simplicity and clarity, with some reductions in employee outcomes where this is justified by the overall efficiency gains;
- 2 **noted** that the major policy decisions are sought in paragraphs 3-22 below, with the Minister to make decisions on the more detailed design elements under delegated authority;

Moving to hours-based accrual for annual leave and sick leave

- 3 **agreed** to introduce hours-based accrual for annual leave and sick leave for all contractual hours of work, at rates that produce equivalent outcomes to the status quo for employees working 5-day, 40-hour weeks:
 - 3.1 0.0769 (i.e. 4/52) of an hour of annual leave;
 - 3.2 0.0385 (i.e. 2/52) of an hour of sick leave – up to a cap of 160 hours stored entitlement (reflecting the 20-day cap under the status quo);
- 4 **agreed** that annual leave and sick leave:
 - 4.1 accrue, at the same rates, on contractual hours during any paid leave, parental leave under the Parental Leave and Employment Protection Act 1987, and during the other unworked periods specified in Annex One to the paper under ECO-25-SUB-0124;
 - 4.2 not accrue while an employee is on unpaid leave, or receiving accident compensation under the Accident Compensation Act 2001, as detailed in Annex One;

- 5 **noted** that full leave accrual while on parental leave, combined with the recommended approach to leave payments in paragraphs 10 to 12 below, will result in an additional benefit to employees returning from parental leave, and an additional cost to employers (depending on when leave is taken) compared to the status quo;
- 6 **noted** that an alternative option, partly reflecting the compromise that exists under the status quo (where leave earned during parental leave can initially be paid at a reduced rate), would be for leave to accrue at a lower rate (e.g. half of the usual accrual rate per contractual hour the employee would have worked);

Requiring the use of a leave compensation payment system

- 7 **noted** that in limited circumstances, monetising leave rather than earning annual leave and sick leave as 'paid time off' for every hour worked can simplify the overall leave system;
- 8 **agreed** that additional hours worked by employees who have some contractually guaranteed hours of work each week, and all hours worked by casual employees, should attract a leave compensation payment (LCP) instead of accruing annual leave and sick leave;
- 9 **agreed** that the LCP rate be set at 12.5 percent for every relevant hour worked;

Moving to a single leave payment methodology

- 10 **agreed** that there be a single approach to the calculation of hourly leave pay rate for all leave types based on an employee's wages or piece rates, as relevant;
- 11 **agreed** that during leave, any fixed allowances (excluding those that compensate for elements that are not incurred when on leave) must continue to be paid in full;
- 12 **noted** that the proposed pay methodology will significantly simplify the payment system, but will exclude additional pay components such as commission, variable allowances and bonuses, resulting in lower leave payments for some employees compared to the status quo;

Implementation and transition period

- 13 **noted** that employers, payroll providers and employees will need time and support to understand the new legislation and implement the required changes in their payroll and business systems;
- 14 **agreed** that, with the exception of the schooling sector, there will be an implementation period of 24 months between that the date the new legislation receives Royal assent and the date it comes into force;
- 15 **agreed** to create a statutory estimation process for remediation calculations to deal with claims of non-compliance with the 2003 Act, with the Minister to decide the details of the approach under delegated authority;
- 16 Confidential advice to Government
- 17 **invited** the Minister to report back to Cabinet on implementation three years from the new legislation being in force;

Extended transition period for the schooling sector

- 18 **noted** that the schooling sector (State and State-integrated schools) would not be able to comply with the Employment Leave Bill (the Bill) within the 24-month implementation period due to the need to overhaul the schools' central payroll system, and agree and implement changes to employment conditions for school employees;
- 19 **noted** that the Ministry of Education has estimated it may take up to 10 years from the Bill passing to complete the work that will enable the schooling sector to comply;
- 20 **agreed** that the Bill will come into force for the schooling sector at a date to be set by Order in Council, but no longer than 10 years after the Bill is passed;
- 21 **noted** that the 2003 Act will continue to apply to the schooling sector up until the time that the Bill comes into force for the schooling sector;
- 22 **noted** that the Ministry of Education would need to remediate school employees for breaches under either the 2003 Act or the Bill (if switching to having that Bill apply occurs before full compliance is achieved);

Authorisations

- 23 **authorised** the Minister to issue drafting instructions to the Parliamentary Counsel Office to give effect to the decisions above;
- 24 **noted** the detailed design specifications proposed in Annex One, which aim to achieve system simplicity and integrate the new elements with other rules that are not proposed to change significantly (such as those for bereavement leave, family violence leave, and public holidays);
- 25 **authorised** the Minister to decide the design specifications described in Annex One, and to make further policy decisions, additional to those in Annex One, during the legislative drafting process that are consistent with the above decisions and overall policy framework described in the paper under ECO-25-SUB-0124;
- 26 **noted** that the additional decisions to be made by the Minister under the above authorisation will include:
- 26.1 transitional, record keeping and penalty provisions, and the details of a statutory estimation process for remediation calculations;
 - 26.2 minor and technical changes, if necessary, to the policy settings specifically agreed by Cabinet;
- 27 **noted** that the Minister will report back on policy decisions made under delegated authority when the draft Bill is considered by the Cabinet Legislation Committee;
- 28 **noted** that, where features of the 2003 Act are not described or altered by the policy decisions in ECO-25-MIN-0124, the presumption is that the status quo, and/or minor improvements to the status quo agreed to in previous Cabinet decisions, will be carried over into the new legislation.

Rachel Clarke
Committee Secretary

Present: (see over)

Present:

Hon David Seymour
Hon Chris Bishop (Chair)
Hon Brooke van Velden
Hon Shane Jones
Hon Erica Stanford
Hon Paul Goldsmith
Hon Dr Shane Reti
Hon Todd McClay
Hon Tama Potaka
Hon Simon Watts
Hon Chris Penk
Hon Penny Simmonds
Hon Andrew Hoggard
Hon Nicola Grigg
Hon Mark Patterson
Hon James Meager
Hon Scott Simpson

Officials present from:

Office of the Prime Minister
Office of Hon Erica Stanford
Officials Committee for ECO