

## Annual Minimum Wage Review 2015 and Minimum Wage Order 2016

### Proposal

1. This paper reports on the minimum wage review for 2015. I seek Cabinet consideration of my recommendation for:
  - a an incremental increase to the adult minimum wage from \$14.75 per hour to \$15.25 per hour from 1 April 2016; and
  - b the starting-out minimum wage and the training minimum wage rates remain at 80 per cent of the adult minimum wage, which will adjust these rates from \$11.80 per hour to \$12.20 per hour.
2. I also seek authorisation to refer the *Minimum Wage Order 2016*, which will give effect to these recommendations, to the Executive Council.

### Executive summary

3. The current minimum wage rates are \$14.75 per hour for adults and \$11.80 per hour for starting-out workers and trainees. Minimum wages are being paid to just over 74,900 workers, making up approximately 3.2 per cent of all employees. Minimum wage workers are disproportionately young people and those working part-time. Women, Māori and Pacific workers, people without formal qualifications, disabled workers, and refugees and migrants are also more likely to be paid the minimum wage than other groups of workers.
4. The 2015 review took place in a weaker economic climate, marked by slower economic growth and labour market performance. The Treasury predicted economic growth in the December 2015 quarter may fall below two per cent. This is lower than the *Budget Update* forecast of three per cent.<sup>1</sup> In the September 2015 quarter unemployment rose to six per cent and the number of people employed fell for the first time in three years to 64.5 per cent. However, there are some positive signs in the labour market. For example, even though the number of people employed fell in the September 2015 quarter, this was still up 1.5 per cent for the September year. The number of filled jobs was also up by 1.7 per cent for the September year. It is also worth noting that net migration for October 2015 year was at 67,360.<sup>2</sup>
5. I considered and received advice on minimum wage options for 2016/17 from the Ministry of Business, Innovation and Employment (MBIE). These options were assessed against the objective for the minimum wage review<sup>3</sup>. Some specific impacts of the minimum wage increase options are summarised in Table 1.
6. I recommend increasing the adult minimum wage to \$15.25 per hour (option 3 that I considered in the review). It is also my recommendation that the starting-out minimum

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<sup>1</sup> The Treasury, Monthly Economic Indicators (October 2015)

<sup>2</sup> Statistics New Zealand, International Travel and Migration: October 2015

<sup>3</sup> The Government's objective for the minimum wage review is 'to keep increasing the minimum wage over time to protect the real incomes of low-paid workers while minimising job losses' (CAB Min (12) 41/5B).

wage and the training minimum wage remain at 80 per cent of the adult minimum wage, which will make these \$12.20 per hour.

7. This option increases the real value of the minimum wage and its relativity to the median wage, which increased 3.8 per cent to \$22.83 per hour (New Zealand Income Survey, June 2015). It could increase annual economy-wide wages by \$75 million and does not affect inflation. MBIE's modelling shows that the constraint on employment growth is negligible.

**Table 1: Summary of the impacts of the minimum wage options**

Minimum wage rate impact measures	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6
Adult minimum wage (hourly rate)	\$14.75	\$15.00	\$15.25	\$15.50	\$16.05	\$19.25
Adult minimum wage (gross weekly income) <sup>4</sup>	\$590	\$600	\$610	\$620	\$642	\$770
Percentage increase	N/C	1.7%	3.4%	5.1%	8.8%	30.5%
Relativity to median wage <sup>5</sup>	64.6%	65.7%	66.8%	67.9%	70.3%	84.3%
Number of people directly impacted (rounded up to nearest 100)	74,900	85,500	152,700	173,300	267,200	555,900
Estimated restraint on employment	N/C	N/C	N/C	-2,000	-5,500	-28,000
Estimated economy-wide increase in wages (\$m, annual)	N/C	25	75	132	304	2,379
Estimated inflationary impact/GDP (percentage points)	N/C	N/C	N/C	N/C	0.1%	0.8%
Additional annual costs to the government (\$m) <sup>6</sup>	N/C	\$8.79	\$22.82	\$37.97	\$86.61	\$555.74 <sup>7</sup>

<sup>4</sup> This is calculated on a 40 hour week basis.

<sup>5</sup> The median hourly earnings are \$22.83 per hour (New Zealand Income Survey, June 2015).

<sup>6</sup> This is a high level estimate based on the additional costs to the Ministries of Health, Social Development and Education, and the Accident Compensation Corporation from higher wage costs for their employees and service providers.

<sup>7</sup> This figure in particular is likely to be underestimated because employees and contractors working for state agencies other than the four surveyed here would be affected by a minimum wage rate increase to \$19.25. This figure should also be considered alongside the \$1.1 billion increase to ACC's Outstanding Claims Liability which would result in higher ACC levies.

**Background**

- 8. I have a statutory obligation to review the minimum wage rates by 31 December each year under section 5 of the Minimum Wage Act 1983.
- 9. The Government’s objective for the minimum wage review is ‘to keep increasing the minimum wage over time to protect the real incomes of low-paid workers while minimising job losses’ (CAB Min (12) 41/5B refers).
- 10. In 2012 Cabinet agreed to change the minimum wage review process to provide a streamlined process for three years, with the fourth year being a comprehensive process. This year’s review is the first comprehensive review since the Government made its decision.
- 11. The table below sets out the process for the review under the cyclical approach:

**Table 2: Cyclical approach to the minimum wage review**

	<b>Streamlined review (2012, 2013, 2014)</b>	<b>Comprehensive review (this year)</b>
<b>Factors</b>	<ul style="list-style-type: none"> <li>• Inflation, using the Consumers Price Index as the indicator</li> <li>• Wage growth, using median wage as the indicator</li> <li>• Restraint on employment</li> </ul>	<ul style="list-style-type: none"> <li>• Streamlined review plus other factors</li> </ul>
<b>Stakeholders consulted</b>	<ul style="list-style-type: none"> <li>• New Zealand Council of Trade Unions</li> <li>• Business New Zealand</li> </ul>	<ul style="list-style-type: none"> <li>• Streamlined review plus additional stakeholders</li> </ul>

- 12. The other factors agreed to by me were:
  - labour productivity — to consider the effect of the minimum wage rate increases on wage levels, and whether changes to the minimum wage rate have kept up with labour productivity
  - effects of minimum wage rate increases on social assistance received
  - effects of minimum wage rate increases on business growth
  - effects of minimum wage rate increases on the hours worked by employees
  - effects of minimum wage rate increases on workers who are earning at a rate slightly higher than the minimum wage
  - affordability for Government of changes to the minimum wage rate
  - international standing of New Zealand’s minimum wage rate.
- 13. The minimum wage rates normally increase every year after the completion of the annual review. The following table shows the recent changes in the hourly rate, compared with the annual increase in the average wage.

**Table 3: Changes in minimum wage rates since 2006**

Time Period	Adult Minimum Wage	Youth Minimum Wage <sup>8</sup>	% Change	Annual increase in average wage <sup>9</sup>
April 2006	\$10.25	\$8.20	7.9%	5.4%
April 2007	\$11.25	\$9.00	9.8%	4.7%
April 2008	\$12.00	\$9.60	6.7%	4.7%
April 2009	\$12.50	\$10.00	4.2%	5.4%
April 2010	\$12.75	\$10.20	2.0%	1.0%
April 2011	\$13.00	\$10.40	2.0%	2.6%
April 2012	\$13.50	\$10.80	3.8%	3.8%
April 2013	\$13.75	\$11.00	1.9%	2.1%
April 2014	\$14.25	\$11.40	3.6%	3.5%
April 2015	\$14.75	\$11.80	3.5%	2.1%

## Comment

14. In general, minimum wage increases may have the following impacts:
  - a. increased earnings for minimum wage workers (although net household income is also affected by other government interventions, such as taxation and abatement for those receiving income support and tax credits) and potentially flow-on impacts for other workers earning close to the minimum wage
  - b. increased labour costs for employers, especially for those industries that employ a large number of minimum wage workers such as retail and hospitality. This could result in greater inflation pressure. An increase in the minimum wage will also have a fiscal impact on the state sector, mainly the Ministries of Education, Health and Social Development, and the Accident Compensation Corporation (ACC)
  - c. negative employment effects, including lower job growth and reduced hours, particularly from a significant rise in the level of the minimum wage. The extent of these effects will depend on the size of the wage increase and the economic and labour market context in which it occurs, and are most likely to impact on some demographic groups, such as women, Māori and Pacific workers, people without formal qualifications, disabled workers, and refugees and migrants.
15. Setting the minimum wage requires balancing the benefits of any changes, such as the protection of the lowest paid, against the costs that any changes might bring, such as negative employment impacts.
16. MBIE advises me that a moderate increase is appropriate in current economic and labour market conditions. A moderate increase means an incremental adjustment that maintains or increases the real value of the minimum wage while not constraining employment growth.
17. An incremental increase in the minimum wage rate will not have a significant impact on either the demand or supply of minimum wage workers, or more broadly employment

<sup>8</sup> This includes new entrants and training rates and the starting-out wages rates (from 2014).

<sup>9</sup> Source: Ordinary time hourly wages, Quarterly Employment Survey, March quarters, Statistics NZ.

or unemployment. Further, it is unlikely that a modest rise in the minimum wage will have any significant impact on average or median wage growth.

18. Given the uncertainty around a lot of the impacts of the minimum wage increase, I consider that a relatively restrained approach continues to be warranted. Amongst all the options I considered, option 3 (\$15.25 per hour) is the preferred option because:
  - a. this is an incremental increase that takes account of current economic and labour market circumstances
  - b. a moderate increase will have a positive financial and social impact for low paid workers through an increase in their income. Option 3 impacts up to 152,700 workers directly with negligible impact on employment growth
  - c. options 1 and 2 (\$14.75 per hour and \$15.00 per hour) have similar (negligible) impacts on the economy, but do not have as significant or widespread impacts on low-paid workers
  - d. option 4 has smaller employment impacts than Options 5 and 6. However, employment impacts from increases in the minimum wage will fall predominantly on the low-paid and vulnerable sectors of the economy
  - e. under options 5 and 6 (\$16.05 per hour and \$19.25 per hour), the costs are very likely to outweigh the benefits as employment growth could be significantly restrained. This is inconsistent with the objective for the minimum wage review, which is to protect the real incomes of low-paid workers while minimising job losses
  - f. option 3 is therefore the option most consistent with the objective for the minimum wage review.

## Consultation

19. In accordance with the Cabinet minute (CAB Min (12) 41/5B refers), numerous stakeholders were contacted to make a submission to the review as part of the comprehensive process. Letters inviting submissions to the review were sent to 69 stakeholders. The review received 25 submissions. Their views and submissions were analysed in the review process.
20. The Treasury, Ministry of Health, Ministry of Social Development, Ministry of Education, Ministry of Pacific Peoples, and Ministry for Women, the Accident Compensation Corporation (ACC), Te Puni Kōkiri, the State Services Commission, and the Inland Revenue Department have been consulted in this review. The Department of the Prime Minister and Cabinet has been informed of the review.
21. The Ministries of Health, Pacific Peoples and Social Development, and ACC advise that they support the proposed rate. The Ministry for Women would support either the proposed rate or \$15.50 per hour. A summary of agency comments is provided in the Regulatory Impact Statement.
22. Treasury has provided the following comment:

The Treasury acknowledges that a small increase in the minimum wage is likely to have minimal impact on inflation and on overall levels of employment. However, there is a case for maintaining the minimum wage at the current rate.

MBIE's analysis and preferred option reflects their interpretation of the review's objective, Cabinet's decisions on the process for the review, and factors to be considered. In particular MBIE gives significant weighting to changes in the gap between the minimum and median wage rates, as well as CPI change. Treasury considers this shifts the objective of the minimum wage review towards limiting the increase in income inequality. On the other hand, Treasury's preferred option

reflects a greater weighting on the objective of real income protection from the perspective of real purchasing power.

From MBIE's perspective, increasing the minimum wage rates is a 'positive' means of achieving Cabinet's objective (CAB Min (12) 41/5B refers) of 'protect[ing] the real incomes of low-paid workers while minimising job losses'. However, Treasury notes that no evidence of decreasing real incomes of low-paid workers is presented in the review. On the contrary, the review notes that CPI inflation has been significantly out-paced over time by annual increases in the minimum wage. Therefore, maintaining the current minimum wage rates, which are already one of the highest in the OECD relative to average wage rates, is still consistent with Treasury's interpretation of Cabinet's objective.

Raising the minimum wage may marginally reduce income inequality, but it is not particularly well targeted at reducing poverty. Minimum wage workers are widely dispersed across the household income distribution. Many low income earners are people below the age of 30 who are single or part of a childless couple. In addition, the net impact of wage increases for parents or caregivers will be off-set, in part, by a decrease in tax credits or benefit payments (as they abate with higher income).

Finally, while the impact on job losses may be minimal, international evidence has shown that raising the wage will likely result in businesses substituting youth workers for low to semi-skilled older workers. This has implications for youth labour market connectedness and associated benefit rates for this group who already have a high unemployment rate.

## **Fiscal implications — impact on the State Sector**

23. There are state sector employees and employees of contracted service providers who earn at or close to the adult minimum wage, particularly in the public health and compulsory education sectors. Increases in the minimum wage rate are therefore likely to have direct (and also indirect or 'flow-on') costs for some state sector employers. The Ministries of Education, Health and Social Development, and ACC have identified areas which would be impacted by changes in the minimum wage. For these four agencies, total annual costs directly related to the proposed minimum wage increase could increase by \$22.82 million.
24. As well as increasing wage costs, increasing the minimum wage might have other fiscal impacts. Meanwhile, higher incomes can increase the amount of personal income tax received and lead to the abatement of social assistance, such as Working for Families tax credits. Increased labour costs may reduce corporate income tax receipts depending on how companies respond to the minimum wage increase.

## **Human rights**

25. I recommend that the starting-out minimum wage and the training minimum wage continue to be set at 80 percent of the adult minimum wage. As these minimum wage rates continue to make a distinction on the basis of age, namely those aged 16 to 19 years, or their employment status, it continues to raise an issue of discrimination under section 19(1) of the New Zealand Bill of Rights Act 1990.
26. However, this discrimination appears to be justified in terms of section 5 of the Bill of Rights Act for the following reasons:
  - a. there are negative long-term economic and social effects associated with young people being out of work, especially if they remain unemployed for significant periods of time. The starting-out wage and training minimum wage were designed to help get young people into work and work-based training. They encourage employers to take a chance on a young person, and provide opportunities for 16

to 19 year olds to engage in training in their chosen occupation. This enables young people to earn money, gain skills, and get work experience. It helps mitigate the “scarring” effects of long term unemployment by assisting young people into work before they move into a cycle of benefit dependency

- b. while there has been stronger labour market performance over the past year the unemployment rate for the 15 to 19 year old age group is still higher than for other groups (21.8 per cent in September 2015, an increase of 2.4 per cent from the previous year). Labour market conditions and the unemployment rate have not changed significantly enough over the past year to warrant increasing the relativity of the starting-out wage and training minimum wage from the status quo of 80 per cent of the adult minimum wage.

## **Legislative implications**

27. Minimum wages are set through an Order in Council made under section 4 of the Minimum Wage Act 1983. To give effect to a change to the minimum wage rate, a new Order in Council needs to be made by the Governor-General, on the recommendation of the Minister for Workplace Relations and Safety. It is proposed that the new Order will come into force on 1 April 2016 to provide consistency and certainty to both employees and employers.

## **Regulatory impact analysis**

28. The Regulatory Impact Analysis (RIA) requirements apply to the proposal in this paper and a Regulatory Impact Statement (RIS) has been prepared and is attached.
29. The Regulatory Impact Analysis Team (RIAT) has reviewed the RIS prepared by MBIE, and considers that the information and analysis summarised in the RIS meets the quality assurance criteria.
30. RIAT notes officials’ differing interpretations of the Cabinet directive [CAB Min (12) 41/5B refers] regarding the ‘real incomes’. RIAT considers the proposed option incorporates the objective of maintaining the minimum wage relative to the median wage, expanding on the objective of previous reviews, which was to maintain purchasing power in terms of living costs.

## **Gender implications**

31. Women tend to be highly represented in a number of demographic characteristics associated with low pay, including working part-time, and working in the hospitality and retail sectors (in service and sale occupations). It is estimated that, of those currently earning the minimum wage, 48.9 per cent are women<sup>10</sup>. The average hourly wage for women is approximately 88.2 per cent of the average hourly wage for men (aged 18 to 64 years) and this would not change significantly under my recommended option.

## **Publicity**

32. I intend to make a media statement about the decision on the minimum wage rates for 2016 following Cabinet confirmation. The RIS and the Review report will be made publicly available through MBIE’s website (the RIS will also be available on the Treasury’s website), subject to any appropriate withholding of information that would be justified under the Official Information Act 1982.

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<sup>10</sup> Source: 2015 New Zealand Income Survey, Statistics New Zealand.



## Minimum wage order 2015

33. The *Minimum Wage Order 2016* gives effect to the following increases in New Zealand's minimum wage rates:
- a. For adult workers aged 16 years and over, who are not trainees or new entrants, the minimum wage rate will increase from \$14.75 per hour to \$15.25 per hour. For the purposes of the Order, this rate is also expressed as:
    - o \$122.00 per day, and \$15.25 per hour worked in excess of 8 hours on a day; or
    - o \$610.00 per week, and \$15.25 per hour for each hour worked in excess of 40 hours in a week; or
    - o \$1,220.00 per fortnight and 15.25 per hour for each hour worked in excess of 80 hours in a fortnight.
  - b. For starting-out workers, the minimum wage rate will increase from \$11.80 per hour to \$12.20 per hour. For the purposes of the Order, this rate is also expressed as:
    - o \$97.60 per day, and \$12.20 for each hour worked in excess of 8 hours on a day; or
    - o \$488.00 per week, and \$12.20 for each hour worked in excess of 40 hours in a week; or
    - o \$976.00 per fortnight, and \$12.20 per hour for each hour worked in excess of 80 hours in fortnight.
  - c. For trainees aged 20 and over and undertaking at least 60 credits per year in an Industry Training Programme registered on the National Qualifications Framework, the minimum wage rate will increase from \$11.80 per hour to \$12.20 per hour;
    - o \$97.60 per day, and \$12.20 for each hour worked in excess of 8 hours on a day; or
    - o \$488.00 per week, and \$12.20 for each hour worked in excess of 40 hours in a week; or
    - o \$976.00 per fortnight, and \$12.20 per hour for each hour worked in excess of 80 hours in fortnight.

## Timing and 28 day rule

34. It is intended that the *Minimum Wage Order 2016* will come into effect on 1 April 2016.
35. It is intended that the *Minimum Wage Order 2016* will be notified in the New Zealand Gazette on 25 February 2016, and so will comply with the 28-day rule.

## Compliance

36. These regulations comply with the following:
- a. the principles of the Treaty of Waitangi;
  - b. the rights and freedoms contained in the New Zealand Bill of Rights Act 1990 or the Human Rights Act 1993. This proposal does raise an issue of discrimination under section 19(1) of the Bill of Rights Act 1990 on the ground of age. It is considered that this issue appears to be justified in terms of section 5 of that Act;
  - c. the principles and guidelines set out in the Privacy Act 1993;
  - d. relevant international standards and obligations. New Zealand has ratified International Labour Organisation Conventions Number 26: Minimum Wage-

fixing Machinery 1928, and Number 99: Minimum Wage-fixing Machinery (Agriculture) 1951. The proposed Order in Council is consistent with these Conventions; and

- e. the “Legislation Advisory Committee Guidelines: Guidelines on Process and Content of Legislation”, a publication by the Legislation Advisory Committee.

### **Regulations Review Committee**

37. I do not consider that there are grounds for the Regulations Review Committee to draw the regulation to the attention of the House under Standing Order 315.

### **Certification by Parliamentary Counsel**

38. The draft *Minimum Wage Order 2016* has been certified by Parliamentary Counsel as being in order for submission to Cabinet in reliance on legal advice provided by Crown Law last year as to the lawfulness of prescribing a fortnightly minimum wage.

### **Recommendations**

The Minister for Workplace Relations and Safety recommends that the Legislative Committee:

1. **note** that I intend to recommend to the Governor-General to prescribe by an Order in Council that the adult minimum wage rate be adjusted from \$14.75 per hour to \$15.25 per hour from 1 April 2016;
2. **note** that I recommend maintaining the starting-out minimum wage and the training minimum wage at 80 per cent of the adult minimum wage rate for 2016, which will make these \$12.20 per hour each;
3. **note** that an adjustment in the adult minimum wage to \$15.25 an hour slightly increases the real value of the minimum wage and is consistent with last year’s increase. This increase could directly affect up to 152,700 workers. It could increase annual economy-wide wages by \$75 million and no effect on inflation. There will be costs borne by the Crown from an increase to the minimum wage rate. The constraint on employment growth is negligible;
4. **note** that the *Minimum Wage Order 2016* gives effect to these recommendations;
5. **note** that the *Minimum Wage Order 2016* will come into effect on 1 April 2016; and
6. **authorise** the submission of the *Minimum Wage Order 2016* to the Executive Council.

Authorised for lodgement

Hon Michael Woodhouse

**Minister for Workplace Relations and Safety**

\_\_\_\_\_/02/2016