



COVERSHEET

Minister	Hon Iain Lees-Galloway	Portfolio	Workplace Relations and Safety
Title of Cabinet paper	Minimum Wage Review 2019	Date to be published	21 February 2020

List of documents that have been proactively released

Date	Title	Author
5 December 2019	Minimum Wage Review 2019	Office of Hon Iain Lees-Galloway
11 December 2019	DEV-19-MIN-0353 Minute	Cabinet Economic Development Committee
5 December 2019	RIA: Increasing the minimum wage 2019	MBIE

Information redacted

YES / NO [select one]

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In Confidence

Office of the Minister for Workplace Relations and Safety

Chair, Cabinet Economic Development Committee

Minimum Wage Review 2019

Proposal

1. This paper seeks Cabinet agreement to:
 - 1.1. increase the adult minimum wage from \$17.70 to \$18.90 per hour from 1 April 2020; and
 - 1.2. increase the starting-out and training minimum wages from \$14.16 to \$15.12 per hour from 1 April 2020 (the *Minimum Wage Act 1983* requires that these rates are set at no less than 80 per cent of the adult minimum wage).

Executive Summary

2. The adult minimum wage is currently \$17.70 per hour, and the starting-out and training minimum wages are currently \$14.16 per hour. The adult minimum wage is being paid to approximately 85,400 workers.
3. In light of the Coalition Agreement commitment to increase the minimum wage to \$20 per hour by 2021, I seek Cabinet's agreement to increase the adult minimum wage to \$18.90 (and the starting-out and training minimum wages to \$15.12) from 1 April 2020, noting:
 - 3.1. \$18.90 is the published indicative rate for 2020, which was agreed by Cabinet in December 2018 (DEV-18MIN-0309 refers);
 - 3.2. \$18.90 is the mid-point from \$17.70 to increasing the minimum wage to \$20 by 2021 and provides a balanced approach towards meeting the Government's commitment;
 - 3.3. up to 242,400 workers (currently earning from \$17.70 to \$18.90 per hour) will receive an increase to the new minimum wage;
 - 3.4. no increase or a small increase would erode the real incomes of the lowest paid workers compared to wage growth and inflation;
 - 3.5. it will have a moderate restraint of 6,500¹ fewer individuals in employment than there would have been if the minimum wage had not increased. This compares to forecast employment growth of 43,600 in 2020; and

¹ Disemployment estimates are based on the wage growth forecasts contained in the Treasury's Budget Economic and Fiscal Update 2019. Restraint on employment estimates found in the Minimum Wage Review 2018 were based on NZIER's wage forecasts, found in their Quarterly Predictions. For comparative purposes, restraint on employment estimates for \$18.90 based on NZIER's September 2019 quarterly predictions would be 4,500 for 16-64 year olds.

- 3.6. the unemployment rate of 4.2 per cent remains at a very low level within the context of the 1 April 2019 increase to the adult minimum wage of \$1.20 and wide publication of the Government's commitment to increase it to \$20 by 2021.

Background

4. The adult minimum wage is currently \$17.70, and the starting-out and training minimum wages are currently \$14.16. As Minister for Workplace Relations and Safety, I have a statutory obligation, under section 5 of the Minimum Wage Act 1983 (the Act), to review the minimum wage by 31 December each year.
5. In line with recent reviews, this year's review considered the following factors in the analysis of options for the minimum wage:
- 5.1. inflation, using the Consumer Price Index as the indicator;
 - 5.2. wage growth, using median wage as the indicator;
 - 5.3. restraint on employment; and
 - 5.4. other relevant factors, such as the impact on sectors, including the State sector.
6. For the 2019 review, the Coalition Agreement commitment to increase the minimum wage to \$20 by 2021 was a key focus, in addition to the following factors which I directed be considered in the review:
- 6.1. living costs and financial needs of workers and their families;
 - 6.2. the actual incomes of workers and households after tax and social transfers;
 - 6.3. relativity of the minimum wage to welfare benefits and the average and median wages;
 - 6.4. distributional impacts of any minimum wage change;
 - 6.5. the impact of any minimum wage change on poverty;
 - 6.6. the Government's goals for the economy; and
 - 6.7. the impacts on different types of employers, including small, medium and large businesses, export and import-reliant businesses, and other employers such as charities.
7. The following table shows annual changes to the minimum wage, compared with the annual increase in the median wage.

Date of new minimum wage	Adult minimum wage	% change	Median wage (June each year)	% change	Minimum wage as % of the median wage
April 2007	\$11.25	9.8%	\$18.00	5.9%	63%
April 2008	\$12.00	6.7%	\$18.56	3.1%	65%
April 2009	\$12.50	4.2%	\$19.51	5.1%	64%
April 2010	\$12.75	2.0%	\$19.95	2.3%	64%

Date of new minimum wage	Adult minimum wage	% change	Median wage (June each year)	% change	Minimum wage as % of the median wage
April 2011	\$13.00	2.0%	\$20.02	0.4%	65%
April 2012	\$13.50	3.8%	\$20.78	3.8%	65%
April 2013	\$13.75	1.9%	\$21.48	3.4%	64%
April 2014	\$14.25	3.6%	\$21.92	2.0%	65%
April 2015	\$14.75	3.5%	\$22.68	3.5%	65%
April 2016	\$15.25	3.4%	\$23.22	2.4%	66%
April 2017	\$15.75	3.3%	\$24.00	3.4%	66%
April 2018	\$16.50	4.8%	\$25.00	2.9%	66%
April 2019	\$17.70	7.3%	\$25.50	2.0%	69%
April 2020	\$18.90	6.8%	*figures not available until June 2020		

Increasing the minimum wage to \$18.90 from 1 April 2020

8. In general, minimum wage increases can have the following effects:
- 8.1. *Increased earnings for minimum wage workers*, although net household income is also affected by other government interventions, such as taxation and abatements for those receiving income support and tax credits.
 - 8.2. *Increased labour costs for employers*, especially for sectors that employ a large number of minimum wage workers such as hospitality and retail (which employ 23,300 and 20,800 minimum wage workers respectively), as well as flow-on costs from increasing the wages of other workers earning close to the minimum wage to maintain their wage relativity to the minimum wage.
 - 8.3. *Inflation pressure*, if employers pass on all or part of their increased labour costs through increased prices.
 - 8.4. *Employment impacts*, including lower job growth and reduced hours. 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. Evidence indicates that under certain conditions minimum wage increases may have negligible or marginally positive employment effects for some groups. Employment effects are most likely to impact some demographic groups such as youth, Māori and women.
 - 8.5. *Changed fiscal costs for government*, through both direct wage costs (employees paid at or near the minimum wage) and indirect costs due to government expenditure on programmes that are affected by the minimum wage. Further discussion is included under the Financial Implications section.
9. The Ministry of Business, Innovation and Employment (MBIE) has assessed a number of minimum wage options to analyse the impact of the different increases. A summary of this assessment is in Annex 1.
10. I have considered MBIE's analysis of the options and seek Cabinet's agreement to increase the adult minimum wage to \$18.90, and the starting-out and training wages to \$15.12 (the Act requires that these rates are set at no less than 80 per cent of the adult minimum wage). MBIE's analysis shows that an increase to \$18.90 is preferred because:

- 10.1. \$18.90 is the published indicative rate for 2020, which was agreed by Cabinet in December 2018;
- 10.2. it is the mid-point from \$17.70 to increasing the minimum wage to \$20 by 2021 and provides a balanced approach towards meeting the Government's commitment;
- 10.3. up to 242,400 workers will receive an increase to the new minimum wage. Many of those earning above the new minimum wage can also expect an increase over time as relative wages between different roles are addressed, and new entrants to employment can expect to start employment at a higher wage than if this increase did not occur. This represents an increase in hourly wages and overall income for many workers;
- 10.4. no increase or a small increase would erode the real incomes of the lowest paid workers compared to wage growth and inflation;
- 10.5. MBIE estimates that there will be 6,500 fewer individuals (low estimates indicate this number could be 4,000, while high estimates suggest a figure of 7,500) in employment than there would have been if the minimum wage had not increased. This compares to forecast employment growth of 43,600 in 2020; and
- 10.6. the unemployment rate (4.2 per cent) remains at a very low level and the labour market is tight. These conditions have occurred in the context of the 1 April 2019 increase to the minimum wage of \$1.20 and in a period in which the intended increase to \$20 by 2021 has been widely publicised.

Consultation

11. Consultation was undertaken with BusinessNZ and the New Zealand Council of Trade Unions, as has been the case in recent reviews of the minimum wage. MBIE also consulted with the Living Wage Movement Aotearoa New Zealand, to examine outcomes for individuals earning between the living wage and the minimum wage, and J R McKenzie Trust, to examine minimum wage impacts on child poverty and children generally. The views of these stakeholders are summarized in the Minimum Wage Review 2019.
12. The Treasury, State Services Commission, Accident Compensation Corporation (ACC), Ministry of Health, Ministry of Social Development, Department of Prime Minister and Cabinet (Child Poverty Unit; Policy Advisory Group), Ministry of Education, Oranga Tamariki, Ministry for Pacific Peoples, Te Puni Kōkiri, Ministry for Women, Inland Revenue, and the Reserve Bank of New Zealand have been consulted on this paper.

Financial Implications

13. The Ministries of Education, Health and Social Development, Oranga Tamariki, ACC and the New Zealand Defence Force provided a detailed estimate of how their costs would be affected by an increase to the minimum wage. For these agencies, total annual costs directly related to the proposed minimum wage increase to \$18.90 per hour are estimated to be approximately \$61.6 million per year.

14. Confidential advice to Government
15. Confidential advice to Government
16. There may be additional fiscal impacts in addition to wage costs. Social assistance costs through benefit payments may rise if an increase in the minimum wage results in a higher level of unemployment. Some other government programmes are adjusted based on labour market wage statistics (for example, parental leave payment rates are adjusted annually based on changes in average ordinary time hourly earnings). Changes to the minimum wage may have an impact on these programmes.
17. It is likely that the fiscal costs to government may be offset by an increase in the goods and services tax received (as a result of people having more disposable income to spend) and a reduction in the amount of social transfers (due to abatements on government support). These impacts are difficult to accurately quantify.
18. Furthermore, some other government programmes are adjusted based on labour market wage statistics (for example, parental leave payment rates are adjusted annually based on changes in average ordinary time hourly earnings). The large changes to the minimum wage proposed for 2020 and 2021 may have an impact on these programmes.

Accident Compensation Corporation's outstanding claims liability

19. ACC's outstanding claims liability (OCL) is an actuarial estimate of the funds required now to meet the future cost of all existing ACC claims up to a hundred years. For the indicative rate of \$18.90, ACC estimates an OCL impact of \$50 million. This does not impose an immediate cost on the Crown, but does have an impact on the notional solvency of the ACC scheme (the measure of ACC's assets to liabilities). It is important to note that the estimated OCL impact of \$50 million for the indicative rate of \$18.90 has been excluded from the estimated \$61.6 million fiscal costs, as including it would produce a distorting effect.

Legislative Implications

20. Minimum wages are set through an Order in Council made under section 4, 4A and 4B of the Act. To give effect to a change in the minimum wage, a new Order in Council needs to be made by the Governor-General, on the recommendation of the Minister for Workplace Relations and Safety. The new Order to increase the minimum wage to \$18.90 will come into force on 1 April 2020.
21. I intend to bring a paper to the Cabinet Legislation Committee in early 2020 to give effect to the minimum wage increase agreed by Cabinet.

Impact Analysis

22. The Regulatory Impact Analysis requirements apply to the proposal in this paper and a Regulatory Impact Assessment (RIA) has been prepared and is attached.
23. A joint Quality Assurance Panel with representatives from the MBIE and the Treasury reviewed the RIA "Increasing the Minimum Wage" prepared by the MBIE and considers

that the information and analysis summarised in the RIA meets the Quality Assurance criteria.

Human Rights

- 24.** I recommend that the starting-out and training minimum wages continue to be set at 80 per cent of the adult minimum wage. As these minimum wages make a distinction on the basis of age, namely those aged 16 to 19 years, or on the basis of their employment status, it continues to raise an issue of discrimination under section 19(1) of the New Zealand Bill of Rights Act 1990 (BORA).
- 25.** However, this discrimination appears to be justified in terms of section 5 of the BORA. There can be negative long-term economic and social effects associated with young people being out of work, especially if they remain unemployed for a significant period of time. Providing the ability to pay young, unskilled, and in-training workers a lower wage than the adult minimum wage is one way to get young people into work and work-based training.

Gender Implications

- 26.** Women tend to be overrepresented in a number of demographic characteristics associated with the minimum wage, including working part-time and working in the hospitality and retail sectors. MBIE estimates that 63 per cent of minimum wage earners aged 16-64 are women, compared to 50 per cent of all wage earners. A minimum wage increase to \$18.90 is likely to reduce the proportion of women that are minimum wage earners.²

Publicity

- 27.** I intend to make a media statement about the decision on the minimum wage for 2020 following Cabinet decisions.

Proactive Release

- 28.** I intend to proactively release this Cabinet paper and the RIA, subject to any appropriate withholding of information that would be justified under the Official Information Act 1982.

² MBIE's modelling estimates that 63% of minimum wage earners are women, but this would reduce to 60% with increasing the minimum wage to \$18.90.

Recommendations

29. The Minister for Workplace Relations and Safety recommends that the Cabinet Economic Development Committee:
1. **note** the Government's Coalition Agreement to increase the minimum wage to \$20 by 2021
 2. **agree** that the adult minimum wage be increased from \$17.70 per hour to \$18.90 per hour from 1 April 2020
 3. **agree** to maintain the starting-out and training minimum wages at 80 per cent of the adult minimum wage, which will mean that these each increase to \$15.12 per hour from 1 April 2020
 4. **invite** the Minister for Workplace Relations and Safety to issue drafting instructions to the Parliamentary Counsel Office to give effect to these recommendations through an Order in Council
 5. **note** that these changes to the minimum wages will be announced before the end of 2019.

Authorised for lodgement

Hon Iain Lees-Galloway

Minister for Workplace Relations and Safety

Annex 1: Summary of impacts of minimum wage options

Minimum wage rate impact measures	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6	Option 7	Option 8
Adult minimum wage (hourly rate)	\$17.70	\$18.20	\$18.70	\$18.90	\$19.40	\$19.90	\$20.55	\$21.15
Adult minimum wage (gross weekly income) ³	\$708	\$728	\$748	\$756	\$776	\$796	\$822	\$846
Percentage increase	-	2.82%	5.65%	6.78%	9.60%	12.43%	16.10%	19.49%
Relativity to median wage ⁴	69.4%	71.4%	73.3%	74.1%	76.1%	78.0%	80.6%	82.9%
Relativity to Job Seeker support ⁵	289%	297%	306%	309%	317%	325%	336%	346%
Number of people directly impacted (rounded up to nearest 100)	85,400	176,200	222,000	242,400	311,400	347,400	449,900	518,500
Estimated restraint on employment ⁶	N/A ⁷	N/A	-4,500	-6,500	-11,500	-17,000	-23,500	-30,000
Estimated economy-wide increase in wages (\$m, annual)	-	88	235	306	532	800	1,251	1,731
Estimated inflationary impact/GDP (percentage points)	-	-	0.10%	0.10%	0.20%	0.30%	0.40%	0.60%
Additional annual costs to the government (\$m) ⁸	-	\$20.6	\$47.60	\$61.6	\$89	\$126	\$171	\$220

³ This is calculated on a 40 hour week basis.

⁴ The median hourly earnings are \$25.50 per hour (Labour Market Statistics (Income), June 2019).

⁵ For a single adult, aged 25 or over, receiving \$244.67 (gross) per week.

⁶ The employment effects for '16-64 year olds' are represented. Figures rounded to the 500s.

⁷ MBIE's model does not produce negative employment effects when the rate of change in the minimum wage is smaller than the rate of change in the average wage. For example, an increase in the current minimum wage rate of \$17.70 to \$18.20 represents a 2.8 per cent increase, which is less than the forecast 3.2 per cent increase in the average wage in 2020.

⁸ This is a high level estimate based on the additional costs to the Ministries of Health, Social Development and Education, Oranga Tamariki, Accident Compensation Corporation and New Zealand Defence Force. It does not include potential transfer savings.