



## COVERSHEET

<b>Minister</b>	Hon Michael Wood	<b>Portfolio</b>	Workplace Relations and Safety
<b>Title of Cabinet paper</b>	Minimum Wage Review 2021	<b>Date to be published</b>	1 April 2022

<b>List of documents that have been proactively released</b>		
<b>Date</b>	<b>Title</b>	<b>Author</b>
February 2022	Minimum Wage Review 2021	Office of the Minister of Workplace Relations and Safety
1 February 2022	Minimum Wage Review 2021 CAB-22-MIN-0005	Cabinet Office

### **Information redacted**

**YES**

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Some information has been withheld for the reason of Confidential advice to Government.

**In Confidence**

Office of the Minister for Workplace Relations and Safety  
Cabinet

**Minimum Wage Review 2021**

**Proposal**

- 1 This paper seeks Cabinet agreement to:
  - 1.1 select one of the following three options to establish a minimum wage rate for 2022:
    - a. *Option A*: \$21.40 – an increase in real disposable income for the lowest paid New Zealanders that would provide a starting point towards achieving a Living Wage
    - b. *Option B*: \$21.25 – an increase to the minimum wage above inflation that aligns with the 4-year average annual increase in the minimum wage rate (since 2017)
    - c. *Option C*: \$21.00 – this is MBIE’s recommendation but would fall below the inflation rate from Stats NZ’s latest data
  - 1.2 Confidential advice to Government  
  
  
  

  - 1.3 increase the starting-out and training minimum wages from \$16.00 to \$17.12, \$17.00, or \$16.80 per hour in 2022 depending on which adult minimum wage rate is selected (the *Minimum Wage Act 1983* requires that these rates are set at no less than 80 percent of the adult minimum wage), and
  - 1.4 the new minimum wage rates coming into effect on 1 April 2022.

## Relation to government priorities

- 2 This proposal contributes to delivering the Government's priorities to:
  - 2.1 accelerate New Zealand's recovery from the effects of COVID-19, and
  - 2.2 support the long-term wellbeing of New Zealanders by making progress in the areas of child wellbeing, housing, and climate change.

## Executive Summary

### The economic context

- 3 The adult minimum wage is currently \$20.00 per hour, and the starting-out and training minimum wages are \$16.00 per hour. The Ministry for Business, Innovation and Employment (MBIE) estimates that the adult minimum wage was being paid to approximately 160,600 workers at the end of June 2021, which is approximately 7.8 percent of all wage earners in paid employment.
- 4 Since the COVID-19 lockdown restrictions were eased in the third quarter of 2020, the economy has performed more strongly than anticipated. Government stimulus to support jobs and businesses and private household consumption has resulted in New Zealand having one of the strongest recoveries among OECD countries.
- 5 Jobs and employment have grown across most sectors over the year to September 2021. Job ads data has returned to trend growth and firms are reporting increasing difficulties in finding skilled and unskilled labour. Demand for labour, however, has varied between and within industries, with changing alert level restrictions and supply chain disruption amplifying seasonal variation in output.
- 6 While the labour market has been disrupted by the COVID-19 lockdowns, it has been more resilient than expected, with most of the key measures in the June 2021 quarter returning to around pre-COVID-19 levels. The unemployment rate fell to a record low of 3.4 percent in the September 2021 quarter, down from 4.0 percent in the June 2021 quarter and 4.6 percent in the March quarter.

### Options for 2022 Confidential advice to Government

- 7 Hard-working Kiwis, including those who have been essential workers in our COVID response like cleaners, supermarket workers, and security guards, deserve to be paid appropriately for their work and receive wages that reflect the cost of living.Confidential advice to Government
- 8 With the recent lockdowns and continuing economic pressures on businesses, there is a risk that the additional wage costs may result in employers increasing prices, reducing workers' hours, their staffing levels, or, for some vulnerable businesses, ceasing trade.

9 The strong labour market and job growth, however, suggest that the negative employment effects of a minimum wage increase are more likely to be offset by the creation of new jobs. Increasing the purchasing power of low wage workers is also likely to contribute to support businesses and jobs as the vast majority of this additional income is likely to be spent in the local economy.

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**Recommended approach**

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14.1 Looking the latest Stats NZ data, maintaining the real value of the current minimum wage of \$20.00 per hour would require an increase to approximately \$21.18. An increase to higher than \$21.18 will be required if we wish the minimum wage to contribute to an increase in real disposable income for the lowest paid New Zealanders.

14.2 An immediate lift in the minimum wage to match the Living Wage, however, might risk undue economic disruption. Disadvantaged groups in the labour market such as Māori and Pacific people will be most adversely impacted by any increase in unemployment.

14.3 A 2022 minimum wage rate of \$21.40 strikes an appropriate balance. Up to 309,100 workers (those currently earning up to \$21.40) would receive a pay increase up to the new minimum wage.

- 14.4 The estimated negative effects of this level of increase are not unduly large. MBIE estimates that this increase is unlikely to result in more than around 7,900 individuals not being employed, compared to the situation if the minimum wage had not increased at all.
- 14.5 After the 2020 minimum wage was increased to \$20.00 per hour, unemployment fell to its current fourteen year low despite the impact of COVID on our economy. This can give us some confidence that increases of a broadly similar scale are unlikely to contribute to a significant reduction in employment.
- 14.6 MBIE estimates there would be an annual economy-wide increase in wages of approximately \$458 million, additional annual costs to Government of \$59.40 million and 0.15 percent inflationary impact for an increase in the minimum wage to \$21.40.

15 I propose that the new minimum wage rates come into effect on 1 April 2022.

16 My preference is also to publicly signal indicative minimum wage rates for

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19 Once Cabinet has made its decisions, I intend to publicly announce the new minimum wage rates and implementation date.

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## Background

- 20 The adult minimum wage is currently \$20.00, and the starting-out and training minimum wage rates are currently \$16.00. 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 rates by 31 December each year.
- 21 Similar to previous years, the following factors were considered in MBIE's analysis:
- 21.1 inflation, using the Consumer Price Index as the indicator
  - 21.2 wage growth, using median wage as the indicator
  - 21.3 restraint on employment, and
  - 21.4 fiscal impacts on government.
- 22 For this year's review, I also directed officials to consider other factors:
- 22.1 the relativity of the minimum wage to welfare benefits, to the average and median wages in New Zealand, in other OECD countries and to Living Wage Aotearoa's Living Wage
  - 22.2 the relativity to household living costs, in particular the cost of housing, and the financial needs of workers and their families
  - 22.3 the effects of a minimum wage increase on personal and household incomes of minimum wage workers, after tax and social transfers
  - 22.4 impacts on specific groups, such as Māori and Pacific people, women, and those with a disability
  - 22.5 the impacts on different employers, including small, medium and large businesses, export and import reliant businesses and other employers such as charities
  - 22.6 impacts on and viability of sectors that have been most significantly affected by COVID-19 and have high proportions of minimum wage workers, for example, tourism, accommodation, retail, hospitality, manufacturing
  - 22.7 the proposed minimum wage level in 2024 and trajectory for increases in 2022 and 2023, assessed in comparison with household living and economic performance/measurement benchmarks.

## The minimum wage has risen substantially in recent years...

- 23 The table shows below annual changes to the minimum wage since 2012, compared with the annual increase in the median wage.

Date of new minimum wage (1 April)	Adult minimum wage	% change	Median wage (June each year)	% change	Minimum wage as % of the median wage
2012	\$13.50	3.8%	\$20.78	3.8%	65%
2013	\$13.75	1.9%	\$21.48	3.4%	64%
2014	\$14.25	3.6%	\$21.92	2.0%	65%
2015	\$14.75	3.5%	\$22.68	3.5%	65%
2016	\$15.25	3.4%	\$23.22	2.4%	66%
2017	\$15.75	3.3%	\$24.00	3.4%	66%
2018	\$16.50	4.8%	\$25.00	2.9%	66%
2019	\$17.70	7.3%	\$25.50	2.0%	69%
2020	\$18.90	6.8%	\$27.00	5.9%	70%
2021	\$20.00	5.8%	\$27.76	2.8%	72%
<b>2022</b>	<b>\$21.40 or \$21.25 or \$21.00</b>	<b>7.0% or 6.27% or 5.0%</b>	Figures not available until June 2022		

24 Recent increases in the minimum wage have been higher than median wage growth, which has compressed the wage distribution curve, steepening the lower wage side. This means that, until median wages move upwards, increases to the minimum wage will capture more workers and have a greater effect on businesses than has been the case historically.

**... with no discernible negative economic impact**

25 Minimum wage increases can have the following effects:

- 25.1 *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, accommodation assistance and tax credits
- 25.2 *Increased labour costs for employers*, especially for sectors that employ a large number of minimum wage workers such as hospitality and retail, 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
- 25.3 *Inflation pressure*, if employers pass on all or part of their increased labour costs through increased prices. New Zealand’s annual inflation rate was 4.9 percent in the year to September 2021, which exceeds the Reserve Bank’s target range of 1 – 3 percent. MBIE’s minimum wage review suggests that inflation has not, to date, significantly increased as a result of changes to the minimum wage



- 25.4 *Employment impacts*, including lower job growth, reduced hours and substitution of higher-paid and skilled employees for minimum wage workers. The dis-employment effects of minimum wage increases depend on the size of the increase, the economic and labour market context in which it occurs, and how employers respond to the changes. In New Zealand, a 2021 report by Motu Economic and Public Policy Research did not find evidence of adverse employment effects from increases in the minimum wage. It did note, however, that youth and low skilled workers are most at risk of this impact.
- 25.5 *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. These costs are mitigated to some extent by the Government's decision to pay some public sector supply contractors at a living wage rate.
- 26 Overall, the New Zealand experience to date suggests that the dis-employment effects of minimum wage increases should not be overplayed.
- 27 We have consistently raised the minimum wage every year on average by 6.18% since 2018 without notable economic impacts.
- 28 After the 2020 minimum wage was increased to \$20.00 per hour, unemployment fell to its current fourteen year low despite the impact of COVID on the economy. This can give us some confidence that increases of a broadly similar scale are unlikely to contribute to a significant reduction in employment.

### **The economic context supports further progress**

- 29 Since the COVID-19 lockdown restrictions were eased in the third quarter of 2020, the economy has recovered and performed more strongly than anticipated. Government stimulus to support jobs and businesses has resulted in New Zealand having one of the strongest recoveries among OECD countries.
- 30 The labour market has been more resilient than expected. Job ads data has returned to growth, and firms are reporting difficulties in finding skilled and unskilled labour. The global economic recovery has lost some momentum owing to the emergence of Omicron and ongoing supply chain disruptions, but remains positive with vaccination, policy support, savings drawdown, and the reopening of economic activity all supporting growth.
- 31 The unemployment rate fell to a record low of 3.4 percent in the September 2021 quarter, down from 4.0 percent in the June 2021 quarter and 4.6 percent in the March quarter, and down 1.9 percent compared to September 2020. Demand for labour, however, has varied between and within industries, with changing alert level restrictions and supply chain disruption amplifying seasonal variation in output.

- 32 Treasury's December 2021 Half Year Economic and Fiscal Update (HYEFU) notes that the unemployment rate is expected to fall to 3.1% in the March 2022 quarter, before slowly increasing to 4.1% by 2026. This continued tightness in the labour market, together with higher CPI inflation, is expected to maintain wage growth above 4.0% throughout the forecast period.
- 33 The combination of supply chain disruptions and strong demand has seen capacity pressures intensify, contributing to higher inflation. Consumers Price Index (CPI) inflation is forecast to peak at 5.6% in the March 2022 quarter, before trending down.

### **MBIE has recommended pegging minimum wage rises to inflation**

- 34 MBIE notes that recent increases in the minimum wage have been higher than median wage growth, which has compressed the wage distribution curve, steepening the lower wage side. This means that, until median wages move upwards, increases to the minimum wage will capture more workers and have a greater effect on businesses than has been the case in recent years.
- 35 MBIE completed its 2021 Minimum Wage Review in November 2021 (before the December 2021 HYEFU was available). It assessed several minimum wage options to analyse the potential impact of the different increases. Its report recommends increasing the adult minimum wage rate to \$21.00 per hour and the starting-out and training wages to \$16.80 per hour on 1 April 2022. A summary of this assessment is in **Annex One** and the full report is attached as **Annex Two**.
- 36 MBIE's view is that increasing the minimum wage to \$21.00, a 5.0 percent increase, would match the annual rate of Consumer Price Index annual increases in the year to the end of September 2021 (4.9 percent). It also takes into account higher forecast inflation over the next six months. Some forecasts show inflation possibly reaching up to six percent in the first quarter of 2022, before subsiding to around two percent in 2023 and 2024.
- 37 MBIE estimates that an increase to \$21.00 would impact an estimated 230,300 people with a potential employment restraint of -3,900 people. This would result in an estimated annual economy-wide increase in wages of \$278 million, additional annual direct costs to Government of \$43.0 million and 0.09 percent inflationary impact.
- 38 MBIE notes that adjusting the minimum wage to account for inflation will achieve the objective of the minimum wage review, which is to protect the real incomes of low-paid employees while minimising the risk of job losses. This risk would be likely to fall disproportionately on youth, female, Māori and Pacific workers.
- 39 However, their recommendation was made before Stats NZ's inflation data for the December 2020 quarter to the December 2021 quarter was made, which shows annual inflation has hit a three-decade high at 5.9%. Their preferred

option of a 5% increase means real wages of the lowest earners would not keep pace with inflation.

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40 I acknowledge MBIE's advice but consider that a different approach will better support the Government's key workplace priorities. These are to invest in workers by growing their incomes and wages, especially for those earning the least; to make it easier for employees to receive fair wages and conditions; and avoid competition based on low wages. The Government has committed to achieving these priorities by continuing to lift the minimum wage and introducing Fair Pay Agreements.

41 Confidential advice to Government

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43 The Living Wage is calculated independently each year by the New Zealand Family Centre Social Policy Unit. The methodology used identifies the hourly wage a worker needs to pay for the necessities of life and participate as an active citizen in the community. It reflects the basic expenses of workers and their families such as food, transportation, housing and childcare. The 2020/2021 Living Wage is \$22.75.

44 Currently, paying the Living Wage is voluntary. Living Wage employers want to make sure their workers get enough money to live with dignity. All central government departments, and many local bodies are Living Wage employers. Many small and ethical employers also choose to pay a Living Wage.

45 The NZ Council of Trade Unions has presented a petition to the government seeking an immediate increase in the minimum wage to the rate of the Living Wage. It includes international research which argues that increases to the minimum wage are likely to have little to no overall impact on unemployment.

46 Business New Zealand has said previously that it was useful to have the minimum wage rates signalled over three years to give businesses certainty.

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47 In New Zealand, the strong labour market and job growth suggest that the negative employment effects of a minimum wage increase are more likely to

be offset by the creation of new jobs. Increasing the purchasing power of low wage workers is also likely to support businesses and jobs as the vast majority of this additional income will be spent in the local economy.

48 Nonetheless, the recent lockdowns and continuing economic pressures on businesses mean rising wage costs may result in some employers increasing prices, reducing workers' hours, staffing, or ceasing trade. In this context, increasing the minimum wage to significantly beyond \$21.40 could put unsustainable cost pressure on employers, particularly in the sectors that have been hardest hit by the COVID-19 lockdowns. A balanced approach is required, as disadvantaged groups in the labour market such as Māori and Pacific people will be most adversely impacted by an increase in unemployment.

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**The forecast impacts of the proposed 2022 rate are moderate**

- 63 MBIE’s minimum wage report sets out estimates for employment restraint arising from incremental increases in the minimum wage. These estimates are necessarily imprecise. Many factors impact on the labour market, and the effect of minimum wages increases is hard to pinpoint, even retrospectively.
- 64 With this caveat, MBIE estimates that increasing the minimum wage to \$21.40 will create a moderate employment restraint of 7,900 fewer individuals (less people employed than would have been the case if the minimum wage had not increased). This is lower than the employment restraint estimated in 2020 (9,000 people). It is similar to the estimated restraint figures in 2018 (8,000), but higher than the estimates for the rate agreed in 2019 (6,600). The estimated restraint on employment for a \$21.25 rate in 2022 is 6,400 workers.
- 65 MBIE estimates that increasing the minimum wage to \$21.40 would result in an annual economy-wide increase in wages of \$458 million, additional annual direct costs to Government of \$59.4 million and 0.15 percent inflationary impact.
- 66 MBIE also estimates that increasing the minimum wage to \$21.25 would result in an annual economy-wide increase in wages of \$389 million, additional annual direct costs to Government of \$52.9 million and 0.12 percent inflationary impact.

## **I propose a continued differential for starting out and training rates**

67 I propose that the starting-out and training rates are set at 80 percent of the adult minimum wage in accordance with the Act at \$17.12 per hour (based on a \$21.40 adult minimum wage). A differential between the adult minimum wage and the starting-out and training rates supports the transition of youth into employment and helps further the policy objective of incentivising employers to take on and support trainees.

## **The new rates should come into effect on 1 April 2022**

68 I propose that the new minimum wage rates come into effect on 1 April 2022. Since 1997, every minimum wage increase has come into effect in either March or April of the year following the decision, mostly on 1 April. There is no legislative requirement that the minimum wage increase comes into effect on 1 April. This date is chosen because it aligns with annual adjustments to the thresholds for the Accommodation Supplement, the Minimum Family Tax Credit and the end of the financial and tax years for most employers.

## **Financial Implications**

69 The Accident Compensation Corporation (ACC), New Zealand Defence Force, Ministry of Education, and Ministry of Health indicated that a minimum wage increase to \$21.40 may have a financial impact. For these agencies, total annual costs to the Government directly related to the proposed increase are estimated to be \$59.4 million. They have indicated that they are seeking, or will likely seek, funding increases through the Budget process.

70 There could be also an estimated impact on the ACC's levy rate for the Motor Vehicle Account of \$2.01 and \$0.01 on the Earners and Work Accounts.

71 For a \$21.25 rate, total annual costs to the Government directly related to the proposed increase are estimated to be \$52.9 million, and there could be also an estimated impact on the ACC's levy rate for the Motor Vehicle Account of \$1.67 and \$0.01 on the Earners and Work Accounts.

72 There may be additional fiscal impacts in addition to wage costs. Some 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 minimum wage rate proposed for 2022 may have an impact on these programmes.

73 Increases in the minimum wage will have an indirect impact on New Zealand Superannuation and main benefit rates as these are now indexed to the net average wage (since 1 April 2020). Any fiscal impact will be treated as a forecast change through Budget 2021.

74 It is likely that the fiscal costs to government may be offset by an increase in the GST 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.



### **Accident Compensation Corporation's outstanding claims liability**

- 75 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 rate of \$21.40, ACC estimates an OCL impact of \$280 million.
- 76 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 \$280 million for the new minimum wage rate of \$21.40 has been excluded from the estimated \$59.4 million fiscal costs to the Government, as including it would produce a distorting effect.
- 77 For the rate of \$21.25, ACC estimates an OCL impact of \$235 million – also excluded from the \$52.9 million fiscal costs to the Government estimated for a \$21.25 rate to avoid distortion.

### **Legislative Implications**

- 78 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. Subject to Cabinet's decisions, the new Order to increase the minimum wage to \$21.40, \$21.25 or \$21.00 per hour will come into force on 1 April 2022.
- 79 I intend to bring a paper to the Cabinet Legislation Committee in early 2022 to give effect to the minimum wage increase agreed by Cabinet.

### **Impact Analysis**

#### **Regulatory Impact Statement**

- 80 The Regulatory Impact Analysis Team at the Treasury has determined that a separate Regulatory Impact Assessment (RIA) is not required for the regulatory proposals in this paper because it would substantively duplicate the Minimum Wage Review 2021 report. MBIE's RIA panel has reviewed the report and confirmed that it substitutes for a RIA and meets Cabinet's impact analysis requirements.

#### **Climate Implications of Policy Assessment**

- 81 The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do not apply to this proposal as the threshold for significance is not met.

#### **Population Implications**

- 82 The following table outlines the population implications of these proposals.

Population group	How the proposal may affect this group
Māori	<p>Māori are overrepresented among those in low paid jobs. MBIE modelling finds that Māori represent approximately 15 percent of total wage earners and 20 percent of total minimum wage earners, which is 5 percent higher than in the 2020 review and 4 percent higher than in 2019.</p> <p>There is some evidence that Māori are more likely to be adversely affected by disemployment effects than other ethnic groups. A 2011 study found that Māori who were earning the minimum wage experienced significant falls in their employment and total weekly hours when the minimum wage increased significantly.<sup>1</sup></p>
Pacific peoples	<p>Pacific people are among those most likely to benefit from minimum wage increases. Pacific people account for around 7 percent of total wage earners and 10 percent of total minimum wage earners, which is 1 percent higher than in the 2020 review and 4 percent higher than in 2019.</p>
Women	<p>Women tend to be overrepresented in a number of demographic characteristics associated with low pay, including working part-time and working in the hospitality and retail sectors. Wāhine Māori and Pacific women are more likely to be in low-paid jobs, so an increase to minimum wage could be particularly beneficial to these groups.</p> <p>Overall, MBIE estimates that 45 percent of all minimum wage workers are women, and 36 percent of minimum wage workers between 25 and 64 years are women. By comparison, 59 percent of the total workforce is female.</p> <p>The percentage of minimum wage earners who are women has decreased since last year's review by 11 percent for workers between the ages of 16 and 64 and by 26 percent for workers between the ages of 25 and 64.</p>
Disabled people	<p>Labour market statistics show a persistent gap in median incomes from wages and salaries for disabled people. In June 2021, the median weekly income from wages and salaries for those aged 15-64 was \$962 for disabled people, \$144 less than the figure for non-disabled. This suggests that disabled people are likely to be overrepresented among low paid people who will benefit from minimum wage increases.</p>

<sup>1</sup> Pacheco, G. (2011). Estimating Employment Impacts with Binding Minimum Wage Constraints. *The Economic Record*, 87(279), 587-602.

## Human Rights

- 83 I recommend that the starting-out and training minimum wages continue to be set at 80 percent 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, they continue to raise a potential issue of discrimination under section 19(1) of the New Zealand Bill of Rights Act 1990 (NZBORA).
- 84 However, this discrimination appears to be justified in light of section 5 of the NZBORA. 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.

## Consultation

- 85 MBIE consulted with BusinessNZ and the New Zealand Council of Trade Unions on the minimum wage options considered in this year's review and the analytical model used to assess them, as has been the case in recent reviews of the minimum wage. MBIE also consulted with a range of employer representatives, unions and worker representatives, and non-governmental organisations.
- 86 The consultation focussed on gathering information to better understand the potential implications of increasing the minimum wage in the current economic environment and labour market as COVID-19 continues to affect businesses and supply chains. Feedback from social partners and other stakeholders is summarised in the Review report.
- 87 MBIE also consulted with government agencies during the review on the potential implications and costs to Government of the minimum wage options. The Accident Compensation Corporation (ACC), New Zealand Police, Ministry of Health, Ministry of Social Development, Ministry of Education, New Zealand Defence Force and Inland Revenue identified potential cost implications.
- 88 The Treasury and Department of Prime Minister and Cabinet (Child Poverty Unit and Policy Advisory Group) were consulted on MBIE's draft Review report.

## Communications

- 89 I intend to make a media statement about the new minimum wage rates for 2022 following Cabinet's decisions. Confidential advice to Government
- [REDACTED]
- [REDACTED]

## Proactive Release

- 90 I intend to proactively release this Cabinet paper and will invite MBIE to release the Minimum Wage Review 2021 report on its website, subject to any appropriate withholding of information that would be justified under the Official Information Act 1982.

## Recommendations

- 91 The Minister for Workplace Relations and Safety recommends that Cabinet:
- 1 **agree** one of the following three options to establish a minimum wage rate for 2022:
    - 1.1 *Option one*: \$21.40 (preferred)
    - 1.2 *Option two*: \$21.25
    - 1.3 *Option three*: \$21.00 (MBIE's recommendation)
  - 2 Confidential advice to Government  
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  - 3 **agree** to maintain the starting-out and training minimum wages at 80 percent of the adult minimum wage, which will mean that these each increase to \$17.12, \$17.00, or \$16.80 per hour in 2022 [*depending on the option chosen in recommendation one above*]
  - 4 **agree** that the minimum wage increases, noted in recommendations one and three above, come into effect on 1 April 2022
  - 5 **invite** me to provide drafting instructions to Parliamentary Counsel Office to give effect to the above proposals via an Order in Council
  - 6 **note** that these changes to the minimum wages will be announced in 2022, following Cabinet's decisions

7 Confidential advice to Government  
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8 **note** that the options for indicative rates are a signal only so that the prevailing economic and labour market conditions can be considered each year and the statutory obligation to review the minimum wage annually is not undermined.

Authorised for lodgement

Hon Michael Wood  
**Minister for Workplace Relations and Safety**

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**Annex One: Summary of the impacts of the minimum wage options<sup>2</sup>**

Minimum wage rate impact measures	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6	Option 7	Option 8	Option 9
Adult minimum wage (hourly rate)	\$20.00	\$20.35	\$20.60	\$20.80	\$21.00	\$21.25	<b>\$21.40</b>	\$21.75	\$22.75
Adult minimum wage (gross weekly income) <sup>3</sup>	\$800.00	\$814.00	\$824.00	\$832.00	\$840.00	\$850.00	<b>\$856.00</b>	\$870.00	\$910.00
Adult minimum wage (gross annual income)	\$41,600	\$42,328	\$42,848	\$43,264	\$43,680	\$44,200	<b>\$44,512</b>	\$45,240	\$47,320
Percentage increase from existing minimum wage	N/C	1.75%	3.00%	4.00%	5.00%	6.25%	<b>7.00%</b>	8.75%	13.75%
Relativity to median wage <sup>4</sup>	72.1%	73.3%	74.2%	74.9%	75.6%	76.6%	<b>77.1%</b>	78.4%	82.0%
Relativity to average wage <sup>5</sup>	57.5%	58.5%	59.3%	59.8%	60.4%	61.1%	<b>61.6%</b>	62.6%	65.4%
Relativity to Job Seeker support <sup>6</sup>	254.2%	258.6%	261.8%	264.4%	266.9%	270.1%	<b>272.0%</b>	276.4%	289.1%
Number of people directly impacted (rounded up to nearest 100)	NA	183,100	208,200	217,200	230,300	300,700	<b>309,100</b>	347,600	475,900
Estimated restraint on employment <sup>7</sup>	N/C	N/C	N/C	-2,000	-3,900	-6,400	<b>-7,900</b>	-11,300	-21,100
Estimated economy-wide increase in wages (annual)	N/C	\$83m	\$151m	\$212m	\$278m	\$389m	<b>\$458m</b>	\$637m	\$1,317m
Estimated inflationary impact/GDP <sup>8</sup>	N/C	0.03%	0.05%	0.07%	0.09%	0.12%	<b>0.15%</b>	0.20%	0.42%

<sup>2</sup> To ensure comparability between options, the modelling of all options is for the calendar year from 1 April 2021.

<sup>3</sup> This is calculated on a 40 hour week basis.

<sup>4</sup> The median hourly earnings are \$27.76 per hour (Labour Market Statistics (Income), June 2021).

<sup>5</sup> The average ordinary time hourly earnings are \$34.76 per hour or \$1,360.62 gross per week (Labour Market Statistics, September 2021).

<sup>6</sup> For a single adult, aged 25 or over, receiving \$314.73 (gross) per week as at 1 July 2021.

<sup>7</sup> The employment effects for '16-64 year olds' are represented.

<sup>8</sup> The inflationary impact on the GDP-Income measure of the estimated economy-wide increase in wages, weighted by the share of compensation of employees in the National Accounts.

**IN CONFIDENCE**

<b>Minimum wage rate impact measures</b>	<b>Option 1</b>	<b>Option 2</b>	<b>Option 3</b>	<b>Option 4</b>	<b>Option 5</b>	<b>Option 6</b>	<b>Option 7</b>	<b>Option 8</b>	<b>Option 9</b>
Additional annual costs to the government (\$m) <sup>9</sup>	N/C	14.9	25.3	33.7	43.0	52.9	<b>59.4</b>	76.5	135.9
Full time employee receiving no tax credits or other income support - net weekly income and increase from Option 1	\$667.73 -	\$689.09 (\$21.36) 3.20%	\$697.20 (\$29.47) 4.41%	\$703.69 (\$35.96) 5.39%	\$710.17 (\$42.44) 6.36%	\$717.79 (\$50.06) 7.50%	<b>\$721.87 (\$54.14) 8.11%</b>	\$731.41 (\$63.68) 9.54%	\$758.65 (\$90.92) 13.62%
Auckland based sole parent, earning minimum wage, working 40 hours per week with two dependent children, receiving Working for Families and Accommodation Supplement - net weekly income and increase from Option 1	\$1,235.01 -	\$1,242.87 (\$7.86) 0.64%	\$1,247.77 (\$12.75) 1.03%	\$1,250.26 (\$15.24) 1.23%	\$1,252.75 (\$17.73) 1.44%	\$1,255.86 (\$20.84) 1.69%	<b>\$1,257.72 (\$22.71) 1.84%</b>	\$1,262.08 (\$27.07) 2.19%	\$1,274.52 (\$39.51) 3.20%
Auckland based couple, both earning minimum wage, working a combined 60 hours per week with two dependent children, receiving Working for Families and Accommodation Supplement - net weekly income and increase from Option 1	\$1,410.09 -	\$1,416.62 (\$6.52) 0.46%	\$1,421.29 (\$11.20) 0.79%	\$1,425.02 (\$14.92) 1.06%	\$1,428.76 (\$18.67) 1.32%	\$1,433.42 (\$23.33) 1.65%	<b>\$1,436.22 (\$26.13) 1.85%</b>	\$1,442.75 (\$32.67) 2.32%	\$1,461.42 (\$51.33) 3.64%

<sup>9</sup> This is a high level estimate based on the additional costs to the Ministries of Health, Social Development and Education, the New Zealand Defence Force and Accident Compensation Corporation. It does not include potential transfer savings.

**Annex Two: Minimum Wage Review 2021 report**