

Labour

# Cabinet Business Committee

CBC (06) 352

7 December 2006

Copy No: 35

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**Title** Minimum Wage Review 2006

**Purpose** This paper seeks agreement to increase the minimum wage in 2007 to \$11.25 an hour.

**Previous Consideration** None.

**Summary** An Executive Summary is provided on pages 1-3.

It is proposed that the minimum wage be increased from \$10.25 an hour to \$11.25 an hour for adults, and from \$8.25 to \$9.00 for youth.

Comments from other agencies, including Treasury, are provided on page 20. Treasury supports raising the minimum wage to \$11.00.

A summary of submissions received during the review is provided on pages 24-34. A Regulatory Impact and Business Compliance Cost Statement is provided on pages 35-43.

**Baseline Implications** None.

**Legislative Implications** An Order in Council will be required to implement the changes.

**Timing Issues** It is proposed that the increase in the minimum wage enter into force on 1 April 2007.

**Announcement** The Minister will make a media statement. The attached paper would be placed on the Department's website.

**Consultation** Treasury, Education, Women's Affairs, PI Affairs, Health, MSD, MED, Youth Development, TPK, TEC and Disability Issues were consulted. DPMC was informed. A wide range of stakeholders were consulted as part of the review.

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The Minister indicates that consultation with the government caucuses and other parties represented in Parliament is not required.

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**The Minister of Labour recommends that the Committee:**

**Options for the minimum wage**

- 1 note that the Minister of Labour considered the following options in the 2006 minimum wage review:
  - 1.1 Option 1: \$10.25 an hour or \$410 for a forty hour week (status quo – recommendation of Business New Zealand, Federated Farmers of New Zealand, National Association of Retail Grocers and Supermarkets of New Zealand);
  - 1.2 Option 2: \$10.70 an hour or \$428 for a forty hour week (to provide a \$0.45 increase, which is the same increase in average hourly earnings between June 2005 and June 2006, and reflects the increase in the CPI for the June 2006 year – New Zealand Retailers Association recommends an increase in line with the CPI);
  - 1.3 \$10.75 an hour or \$428 for a forty hour week (to provide a \$0.50 increase which is in line with former increases since 1999);
  - 1.4 \$10.80 an hour or \$432 for a forty hour week (to provide a \$0.55 increase, which is the same increase as the increase in the Labour Cost Index for the June 2006 year – New Zealand Retailers Association also recommends an increase in line with the Labour Cost Index);
  - 1.5 Option 3A: \$11.00 an hour or \$440 for a forty hour week (to provide a \$0.75 increase, which is the same increase chosen in last year's review);
  - 1.6 Option 3B: \$11.25 an hour or \$450 for a forty hour week (to provide a \$1.00 increase);
  - 1.7 Option 3C \$12.00 an hour or \$480 for a forty hour week (to provide a \$1.75 increase to immediately achieve the government's goal – recommended by New Zealand Council of Trade Unions, Unite! and the Youth Union Movement);
- 2 note that:
  - 2.1 the Minister of Labour considers that Option 2 (\$10.70 an hour), maintaining relativity to average wages, will preserve the real value of the minimum wage and could be made with confidence in the current economic and labour market conditions;
  - 2.2 such an increase will provide benefits to an estimated 45,100 recipients without any impact on employment growth;

- 3 note that:
- 3.1 the Minister of Labour considers that Option 3A or 3B (\$11.00 or \$11.25 an hour), which is above the rate needed to maintain relativity to the average wage, could be chosen with confidence in the current economic and labour market conditions, to reflect a stronger view of the contribution of the minimum wage to its objectives, and to communicate a stronger message about reaching the government's goal for the minimum wage;
- 3.2 an increase to either of these options may result in slightly less employment growth than otherwise would have occurred;
- 4 note that the Minister of Labour considers that Option 3C (\$12.00 an hour), which is above the rate needed to maintain relativity to the average wage, would increase the likelihood of constraining potential employment growth;

### **Impact of minimum wage increases**

- 5 note that the benefits of minimum wage increases are likely to be felt most strongly among women, younger workers, Maori, Pacific peoples, other non European/Pakeha groups, people without post-school qualifications, part-time workers, people with disabilities, recent migrants, the low skilled and people with non-English speaking backgrounds;
- 6 note that changes in the minimum wage also disproportionately affect employees in the retail, hospitality, health/community, agriculture/forestry/ fishing/mining, manufacturing and property/business sectors, and in small/medium enterprises (SMEs) due to the higher proportion of low wage employees in these sectors and SMEs;
- 7 note that the groups in paragraphs 5 and 6 would also be the first to experience any negative impacts that could result from a minimum wage increase, particularly if there was an increase above \$1.00 an hour (e.g. reduced hours worked, or substitution of some groups of workers by others);

### **Minimum wage rate for 2007**

- 8 agree that the minimum wage rate for 2007 should be \$11.25 an hour for adults and \$9.00 an hour for youth and trainees;
- 9 agree that the youth minimum wage rate should continue to apply for 16 and 17 year old employees and remain at 80% of the adult rate for 2007, pending further work being undertaken by the Department of Labour around options to address issues associated with youth rates in the context of the Minimum Wage (Abolition of Age Discrimination) Amendment Bill;
- 10 agree that the training minimum wage rate should remain at 80% of the adult rate for 2006, pending further work being undertaken by the Department of Labour;
- 11 agree that any increase in the minimum wage will come into effect on 1 April 2007;

**Next steps**

- 12 invite the Minister of Labour to issue drafting instructions to the Parliamentary Counsel Office to implement the above decisions;
- 13 note that the Minister of Labour intends to make a media statement on the decisions about minimum wages following Cabinet confirmation, and that the Cabinet paper and the Officials' report will be made publicly available through the Department of Labour's website;

**The 2007 minimum wage review**

- 14 note that, to better inform the 2007 review, the Department of Labour will:
  - 14.1 review the objectives for the 2007 minimum wage review to ensure that they remain relevant;
  - 14.2 work with the Ministry of Social Development to finalise the modelling work around the impact of minimum wage increases on Working for Families recipients following the implementation of Working for Families phase 2;
  - 14.3 explore the possibility of research to clarify the link between low-pay and part-time work before the 2007 review;
  - 14.4 explore using longitudinal datasets for the 2007 review, to investigate whether individuals received a wage increase in line with the minimum wage increase;

**Consultation**

- 15 note that the Minister of Labour indicates that consultation is not required with the government caucuses or with other parties represented in Parliament.

Fleur Gaston  
for Secretary of the Cabinet

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## **MINIMUM WAGE REVIEW 2006**

### **Purpose**

1. This paper presents the results of the 2006 minimum wage review and presents a range of options for increases in the minimum wage paid to adults (those over 18 years old) from \$10.25 an hour (the current minimum wage) through to \$12.00 an hour. The paper recommends no change to the relativities between the adult minimum wage and the youth (16 and 17 year olds) and training minimum wages, pending further work to be completed by the Department of Labour in the context of the Minimum Wage (Abolition of Age Discrimination) Amendment Bill.

### **Executive Summary**

2. As Minister of Labour, I have a statutory requirement to review the minimum wage by 31 December each year.
3. I have undertaken this year's review in the context of the government's goal of achieving a minimum wage of \$12.00 an hour (for those aged 18 years and older) by the end of 2008, economic conditions permitting.
4. The Department of Labour (the Department) has identified a range of indicators and used these in this year's review to assist in the assessment of current and projected economic and labour market conditions, and whether the various options for the minimum wage rates are sustainable under these conditions.
5. I received 12 submissions on the 2006 review and Department officials also consulted with the Ministry of Pacific Island Affairs' Community Reference Group in Auckland. Submitters' views vary and are summarised in Appendix A.
6. The 2006 review considered a range of options for changes to minimum wages, from 'no change' (recommended by Business New Zealand, Federated Farmers of New Zealand, National Association of Retail Grocers and Supermarkets of New Zealand) through to an immediate increase to \$12.00 an hour (New Zealand Council of Trade Unions, Unite!, Youth Union Movement).

7. I have considered the following five options for the minimum wage:

*Table 1: Options*

<b>Option</b>	<b>Adult rate</b>	<b>Youth/Training rate (80% of the adult rate)</b>
1	\$10.25	\$8.25
2	\$10.70 or \$10.75 or \$10.80	\$8.56 or \$8.60 or \$8.64
3A	\$11.00	\$8.80
3B	\$11.25	\$9.00
3C	\$12.00	\$9.60

8. Based on the Department's view of current and projected economic and labour market conditions, I consider that:
- a. retaining the existing minimum wage rate (\$10.25 an hour) will erode the real value of these wages and would not further contribute to the government's objectives for the minimum wage. There would, however, be no constraint on job growth or other impacts on employers and employees. No tangible movement would be made towards the government's \$12.00 goal.
  - b. increasing the minimum wage to maintain relativity to the increase in the average wage, and to reflect the increase in the Consumer Price Index (which would raise the adult minimum wage rate to \$10.70 an hour) will preserve the real value of the minimum wage and could be made with confidence in the current economic and labour market conditions.
  - c. increasing the minimum wage above the rate needed to maintain relativity to the increase in the average wage (e.g. \$11.00 an hour or more) could be made to reflect a stronger view of the contribution of the minimum wage to its objectives. A rate of \$11.00 an hour would be consistent with the \$0.75 increase in the minimum wage in 2006. A rate over \$11.00 an hour would exceed previous increases in the minimum wage and so would signal a stronger message about the government's commitment to reach its goal of \$12.00 an hour by the end of 2008. I consider that an increase up to \$11.25 could be made with confidence in the current economic and labour market environment, but an adjustment beyond \$11.25 would create more significant risks of slowing job growth and increasing inflationary pressures, particularly if there is an economic downturn, or if economic conditions soften.
  - d. no changes should be made to the relativities between the youth rate, training rate and adult rate, or to their coverage, while the Department undertakes further work in this area. This work is being completed in the context of the Minimum Wage (Abolition of Age Discrimination) Amendment Bill which is currently before the Transport and Industrial Relations Committee. This means the youth rate and training rate would remain at 80% of the adult rate and apply to 16 and 17 year olds (youth rate) and to those aged 16 years and older who are undertaking at least 60 credits a year of a registered industry training programme (training rate), pending any other changes that might

occur. Therefore a rise in the adult rate will result in a proportional rise in the youth rate to maintain this relativity.

9. I recommend that Cabinet agrees to a new minimum wage rate in 2007 of \$11.25 an hour for adults and \$9.00 an hour for youth.
10. The benefits of minimum wage increases are likely to be felt most strongly among women, younger workers, Maori, Pacific peoples, other non European/Pakeha groups, people without post-school qualifications, part-time workers, people with disabilities, recent migrants, the low skilled and people with non-English speaking backgrounds. Changes in the minimum wage also disproportionately affect employees in the retail, hospitality, health/community, agriculture/forestry/fishing/mining, manufacturing and property/business sectors, and in small/medium enterprises (SMEs) due to the higher proportion of low wage employees in these sectors and SMEs. These groups would, however, also be the first to experience any negative impacts that could result from a minimum wage increase, particularly if there was an increase above \$1.00 an hour (e.g. reduced hours worked, or substitution of some groups of workers by others).
11. Correspondingly, employers in these sectors and SMEs are more likely to need to respond to increases in minimum wages. This year, the Department contracted qualitative research to gain a better understanding of how businesses actually respond to increases in minimum wages. This research showed that firms use a variety of strategies to respond to minimum wage increases. For further information on this research please see paragraph 60.

## **SECTION A: BACKGROUND AND CONTEXT**

12. The minimum wage is part of the government's general responsibility to ensure socially acceptable employment standards that are prescribed and enforceable. In addition, there are formal international commitments that establish an explicit obligation on the government to ensure an adequate minimum wage, including under International Labour Organisation (ILO) Convention 26. This convention obliges the government to create minimum wage fixing machinery where "no arrangements exist for the effective regulation of wages ...and wages are exceptionally low" and recommends that minimum wages should be set according to the "general level of wages prevailing in the country".
13. Minimum wages are set through an Order in Council made under Section 4 of the Minimum Wage Act 1983 (the Act). The minimum wage provides a floor for wages paid to employees, and it is an offence to pay wages below the prescribed rate. There is currently a member's bill before the Transport and Industrial Relations Committee (the Minimum Wage and Remuneration Amendment Bill) which, if enacted, would extend coverage of the Act to those engaged under a contract for services.<sup>1</sup>
14. Where a minimum wage is set, I have a statutory obligation as Minister of Labour under Section 5 of the Act to review the level of the minimum wage by 31 December each year.

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<sup>1</sup> The Transport and Industrial Relations Committee is due to report back to the House of Representatives on the Minimum Wage and Remuneration Amendment Bill on 22 May 2007.

15. Since 2000 there have been three changes in the structure of minimum wages:
  - a. the age of eligibility for the adult minimum wage was lowered from 20 years to 18 years in 2001. This change provided consistency with the age for general eligibility to benefits and with the United Nations Convention on the Rights of the Child's specified age for children, as well as providing a fairer wage to young people.
  - b. the youth (16 and 17 year olds) minimum wage increased from 60% to 80% of the adult minimum wage, in two steps in 2001 and 2002, to provide a fairer wage for young people.
  - c. a training minimum wage was introduced in June 2003 to replace an exemption from the minimum wage for employees enrolled in training. The training minimum wage was set at the youth minimum wage for 16 and 17 year olds, as their lower rate implicitly reflects the extra training that this group typically requires.
16. Since 2003, the adult minimum wage rate has increased by either \$0.50 a year or, in 2006, by \$0.75 a year. These increases have slightly outpaced annual increases in the average wage, and a larger increase was chosen in 2006 to reflect the government's goal of moving to \$12.00 an hour by the end of 2008, if economic conditions permit.
17. Changes generally take effect before 1 April each year (following a decision in December the previous year). This year I recommend an implementation date of 1 April 2007, to coincide with the implementation date of four weeks' annual holidays and the Small Business Advisory Group's recommendation for common implementation dates for regulatory change in order to reduce compliance costs.

### **Assessing Options for Changes to Minimum Wage Rates**

18. In assessing the appropriate level of the minimum wage, this paper outlines the political context in which agreements have been made around reaching the government's goal for the minimum wage, and considers the current and projected economic and labour market conditions, the government's objectives for the minimum wage, the costs and benefits to employers and employees of an increase in the minimum wage, and the views of submitters.
19. This paper also considers the impact of minimum wage increases on the share of weekly earnings, the wage bill, and inflation; the impact of minimum wage increases on sectors and firms; and potential employment impacts.

#### **Political context – the government's goal**

20. The 2005 pre-election Labour Party manifesto contained a commitment to continue to make annual adjustments to the minimum wage. Additionally, in the Labour-led government's Confidence and Supply Agreement with NZ First and Co-operation Agreement with the Green Party, the government has committed to continue the practice of annually increasing the minimum wage, with a view to it being set at \$12.00 an hour by the end of 2008, if economic conditions permit.

21. Consequently, this paper assesses whether the various options put forward for the minimum wage are sustainable under the current and projected economic and labour market conditions.

### **Economic context – the labour market outlook to 2009**

22. The current review of the minimum wage takes place against a background of a slowing economy but a still strong labour market. In the June 2006 quarter, the unemployment rate was the second lowest in the OECD at 3.6%. The labour force participation rate rose to a record high of 68.8%, and labour shortage indicators fell but remained high historically. The labour market has remained strong despite economic growth slowing to 1.9% in the year to June 2006. The Department is reasonably confident that part of the explanation for this is that the ability of the economy to make use of its labour capacity has improved, suggesting a fall in New Zealand's non-accelerating inflation rate of unemployment (NAIRU).
23. The past year's economic growth of 1.9% (for the year to June 2006) is the lowest rate since 2001 and it is likely to slow further. In the Budget Economic and Fiscal Update 2006, the Treasury forecast a fall in economic growth to 1.0% in the year to March 2007, before rising to growth of 3.3% in the next year, and then a further lift to 3.5% for the year to March 2009. By way of comparison, the NZIER consensus forecast is growth of 1.5% for the year to March 2007, before rising to 2.2% for the year to March 2008, and then to 3.2% for the year to March 2009.
24. Based on consensus economic forecasting, the Department expects labour market conditions to ease slightly over the next two years but still remain strong. Four main factors underpin the Department's labour market outlook:
  - a. an easing of employment growth and skill shortages due to the recent and expected slowing of economic growth.
  - b. a small rise in the unemployment rate to around 4.0% in the March 2007 quarter.
  - c. a continued high rate of participation and relatively high levels of net migration inflows.
  - d. a gradual rise in labour productivity growth due to factors such as a small shift towards export sectors and strong past growth in business investment.
25. The analysis in this report is based on economic data for the year to June 2006, which ensures consistency with the data from the Household Labour Force Survey: Income Supplement. However, various economic indicators have been updated since June 2006. For example, the unemployment rate has risen slightly to 3.8% in the September quarter. The Consumer Price Index (CPI) rose 4.0% in the year to June 2006, while the latest figures show that the CPI rose 3.5% in the year to September 2006. There was strong earnings growth in the latest Quarterly Employment Survey (QES), where average total hourly earnings rose 5.1% in the September 2006 year.
26. There are some risks to the labour market outlook if there is reduced economic and employment growth. For example, major risk factors in the

short-term surround the balance of payments, interest rates, weather patterns, and the housing market. An additional risk factor is net migration (inflows of 13,000-15,000 people per annum are currently expected in the short-term), where a swing into outflows would affect the labour market directly. However, the latest information on retail sales shows that retail sales have increased, above market expectations.

27. Building on earlier work at the Treasury, the Department is currently testing a leading indicator of employment. The indicator is an aggregation of five different series into one overall composite index.<sup>2</sup> The five series have been shown to lead cyclical employment consistently over a long period. The leading indicator is designed to give advance warning of turning points in employment (i.e. number of people in paid work of one hour or more a week as per the Household Labour Force Survey). The average lead time of the indicator (i.e. the time between a peak or trough in the indicator and the corresponding peak or trough in employment) is around three quarters. A turning point in the indicator is defined as confirmed when there are two consecutive quarterly movements in the same direction after the turning point.
28. The leading indicator of employment has declined in the September 2006 quarter after a brief spell of growth in the June quarter and two consecutive declines in March and December 2005. Employment has, except for the December 2005 quarter, continued to grow on a quarterly basis until June 2006 but declined in September 2006. The indicator confirmed a negative turning point in September 2005 as the next two quarters showed a decline. Whether this is a correct advance warning (by four quarters) of a turning point in employment in September 2006 or a false signal cannot be determined at this stage. In spite of the brief spell of low growth in the June 2006 quarter, the next turning point in the indicator has not yet been signalled.
29. While the interpretation of economic conditions is an art as well as a science and macroeconomic indicators cannot be used in a mechanical way, significant changes in some or all of these (or other) indicators may suggest that there is a risk that future adjustments to the minimum wage may need to be assessed in a less favourable labour market.

#### **Objectives and criteria for the minimum wage**

30. Changes to the minimum wage are part of a wider mix of approaches to support higher quality working lives and productive workplaces. These approaches include work underway on workplace productivity, work-life balance, the Working for Families package, initiatives around skill and labour shortage, work to promote pay and employment equity, and work to enhance choices for living, caring and working.
31. The government has previously agreed to objectives for the minimum wage (FIN (00) M 29/1 and CAB (00) M 33/1E refer) that form the basis of this minimum wage review. The objectives for the minimum wage, and

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<sup>2</sup> These five series are the Quarterly Survey of Business Opinion: Labour as a limiting factor, Company tax receipts, Stockmarket index, Permanent Long Term arrivals and the Southern Oscillation Index. For further information on the leading indicator of employment see Appendix C.

associated benchmarks to help set the minimum wage are:

- a. **Objective 1: Fairness** – to ensure that wages paid are no lower than a socially acceptable minimum.  
*Benchmarks:* average wages, CPI.
  - b. **Objective 2: Protection** – to offer wage protection to vulnerable workers so that workers are paid wages that reflect their worth or productivity.  
*Benchmarks:* minimum wages paid under collective agreements.
  - c. **Objective 3: Income Distribution** – to ensure that earnings of people on low incomes do not deteriorate relative to those of other workers.  
*Benchmarks:* changes in average and median wages.
  - d. **Objective 4: Work Incentives** – to increase the incentives to work, for people considering work.  
*Benchmarks:* benefit levels and costs associated with working.
32. The agreed criteria for assessing changes to the minimum wage through this review are:
- a. do changes in the minimum wage produce gains that are more significant than any losses?
  - b. is the minimum wage the least cost way of implementing the objectives of the policy?
  - c. does the level of the minimum wage form part of the most appropriate mix of measures to meet the broader objectives of the government?

#### **Benchmarks arising from the objectives**

33. *Figure 1* (see page 10) compares the current adult minimum wage, for a 40 hour week, to several other income benchmarks. The Unemployment Benefit (UB) shows the gross rates for those aged 25 years or over, and for those between the ages of 18–24 years (although those aged 18–19 years who live at home receive a lesser rate). The figure shows that the current adult minimum wage is 140.5% higher than the UB for a single adult aged 18 - 24 years and 98.8% higher than the UB for a single adult aged 25 years or over (with no supplementary assistance such as the accommodation supplement). Those on the UB may receive an accommodation supplement, the amount of which depends on the level of rent, board or mortgage they pay.
34. The current adult minimum wage is 77.1% of the average minimum adult wage set out in 181 collective agreements which came into force after 27 March 2006. The current adult minimum wage is 46.8% of average total hourly earnings (using the Quarterly Employment Survey, June 2006) and 60.3% of median hourly earnings (according to the New Zealand Income Survey, June 2006).

## **International benchmarks**

35. In the United States the federal minimum wage rate has remained unchanged since 1 September 1997 (although it is likely to rise with the shift in political power in the Senate) and is currently 34.4% of the median hourly wage rate in the United States. In the United Kingdom, the new adult minimum wage is 47.9% of the median weekly pay for full-time employees in the United Kingdom. In New Zealand, the current adult minimum wage rate is 60.3% of the median weekly wage. In Australia, the new federal minimum wage rate is 63.9% of median full time earnings.
36. Comparing real hourly minimum wages of different OECD countries, in terms of purchasing power parity in United States dollars, shows that New Zealand is 7<sup>th</sup> out of 19 countries (while Australia is second).

## **SECTION B: ASSESSMENT OF THE OPTIONS FOR THE 2007 MINIMUM WAGE RATES**

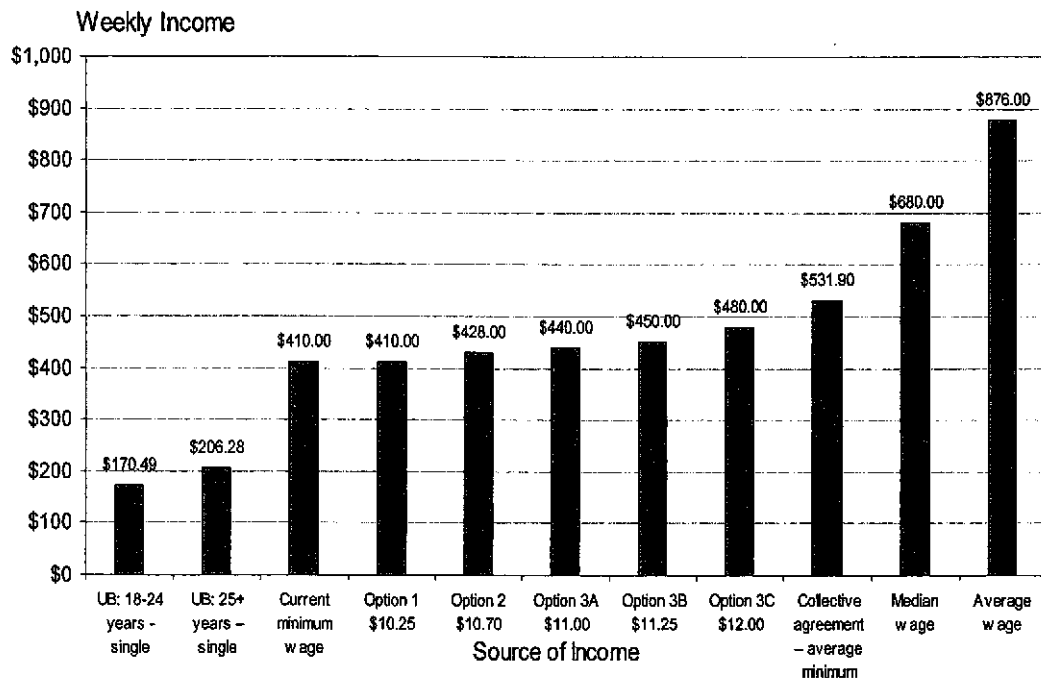
### **Identification of Options**

37. Benchmarks arising from the government's agreed objectives for the minimum wage and an analysis of submissions on the review (see Appendix A), suggest a range of options for the adult minimum wage for implementation in 2007.
38. **Option 1: retain the existing adult minimum wage (\$10.25 an hour or \$410 a week).**  
Leaving minimum wages at this level would see those wages erode in real value, and decrease relative to benefit payments (which are indexed to the CPI). This option is recommended by Business New Zealand, Federated Farmers of New Zealand and the National Association of Retail Grocers and Supermarkets of New Zealand.
39. **Option 2: increase the adult minimum wage to maintain relativity with average wages and the CPI (\$10.70 an hour or \$428 a week).**  
This represents an increase of \$0.45 an hour, or an increase of 4.4% which equates to the movement in average total hourly earnings for the June 2006 year, as measured by the Quarterly Employment Survey. This option is also in line with the CPI, which increased 4.0% for the June 2006 year. Maintaining relativity with the CPI retains the real value of the minimum wage (i.e. inflation adjusted).
40. This option also reflects the New Zealand Retailers Association recommendation that the adult minimum wage maintain its present relationship with wage levels across the economy by applying the CPI or Labour Cost Index. The Labour Cost Index (unadjusted index) increased 5.5% for the June 2006 year (which equates to an increase in the adult minimum wage to \$10.81).
41. While \$10.70 an hour (\$428 a week) has been used to assess the impacts for this option, it would also be possible for this option to be set at \$10.80 an hour (or \$432 a week) to reflect the increase in the Labour Cost Index. It would also be possible to set this option at \$10.75 an hour (or \$430 a

week) which would be a \$0.50 increase and a more rounded figure. An option of \$10.75 or \$10.80 an hour would also better reflect the most recent increases in average wages, as the latest Quarterly Employment Survey reported that the increase in average total hourly earnings rose to 5.1% in the year to September 2006 (which equates to an increase in the adult minimum wage to \$10.77).

42. **Option 3: increase the adult minimum wage above the rate needed to maintain relativity with average wages and the CPI**, in order to achieve the government's goal of an adult minimum wage rate of \$12.00 an hour by the end of 2008, if economic conditions permit.
  - a. **Option 3A: increase to \$11.00 an hour (\$440 a week).**  
This option is a 7.3% or a \$0.75 increase on the current hourly adult minimum wage. This adjustment would be consistent with the \$0.75 (or 7.9%) increase in 2006.
  - b. **Option 3B: increase to \$11.25 an hour (\$450 a week).**  
This option is a 9.8% or a \$1.00 increase on the current hourly adult minimum wage. This, like Option 3C below, would exceed previous increases in the minimum wage and so would signal a stronger message in 2007 about the government's commitment to reach its goal of \$12.00 an hour by the end of 2008.
  - c. **Option 3C: increase to \$12.00 an hour (\$480 a week).**  
This option is a 17.1% or a \$1.75 increase on the current hourly adult minimum wage. This option is recommended by the New Zealand Council of Trade Unions, Unite! and the Youth Union Movement, who also recommend that youth rates be abolished.
43. The New Zealand Council of Trade Unions and Unite! have also recommended that the government progressively move the minimum wage over time to two-thirds of the average wage, and maintain that ratio. Using current data, this would mean an increase in the adult minimum wage to \$14.60 an hour (\$584 a week).
44. *Figure 1* shows how the various options above compare with the unemployment benefit (not including any accommodation supplement), the average minimum weekly wage in collective agreements, the median weekly wage and the average weekly wage. These are among the key indicators the Department uses to compare changes in the minimum wage. The various options for the minimum wage have been calculated using a 40 hour working week.

Figure 1: Comparison of the minimum wage options with other weekly income benchmarks



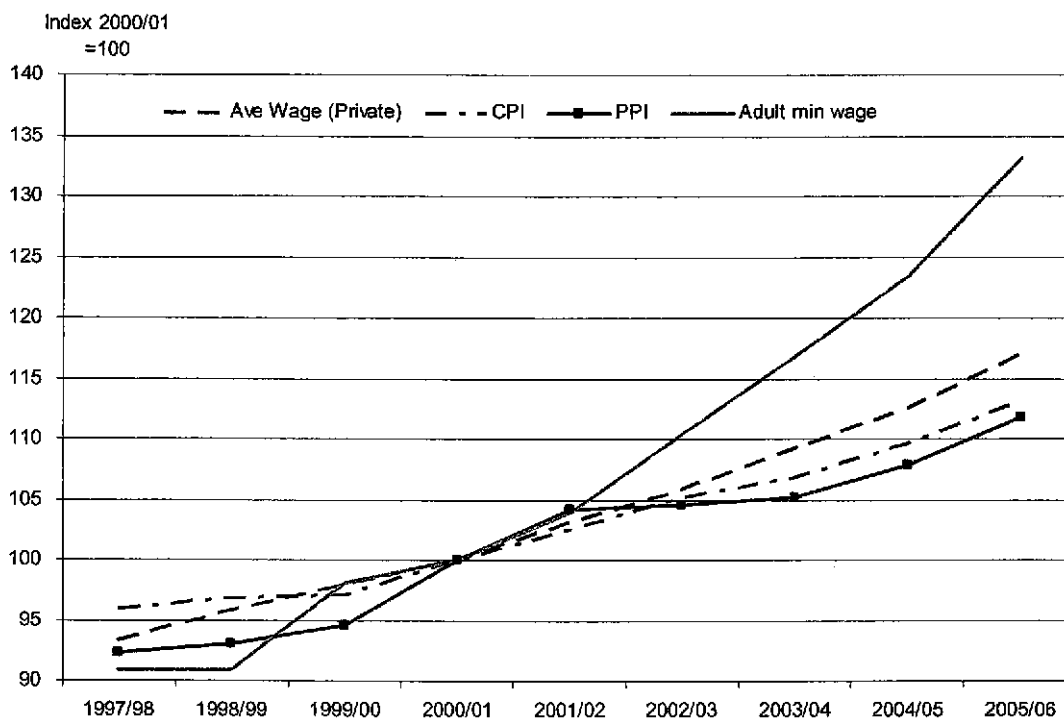
45. Table 2 shows the options assessed against the objectives.

Table 2: Options assessed against objectives

Option	Objective(s) prioritised through option	Per hour	40 hour week
Option 1 - current minimum wage	Erodes existing levels of fairness, protection, income distribution and work incentives	\$10.25	\$410
Option 2 - current minimum wage increased by 4.4% to maintain relativity with increase in average wages	Maintains existing levels of fairness, protection, income distribution and work incentives	\$10.70	\$428
Option 3A - increase current minimum wage by \$0.75 (the 2006 increase)	Improves relative levels of fairness, protection, income distribution, work incentives	\$11.00	\$440
Option 3B - increase current minimum wage by \$1.00.	Improves relative levels of fairness, protection, income distribution and work incentives	\$11.25	\$450
Option 3C - increase the minimum wage to \$12.00 an hour now	Strongly improves relative levels of fairness, protection, income distribution and work incentives	\$12.00	\$480

46. Figure 2 illustrates how changes in the adult minimum wage have been tracking against three benchmarks since 1997/98. The minimum wage has been increasing at a faster rate than the benchmarks shown.

Figure 2: Average wage, Producers Price Index (PPI), CPI and the minimum wage (2000/01=100)



Source: NZIER (Average Wage in Private Sector, PPI, CPI)

## Assessment of Options

47. The assessment below attempts to identify and weigh different costs and benefits for each of the identified five options. There may be some limited constraint on job growth and some inflationary pressures resulting from an increase. Depending on the option chosen, there may be some trade-offs between the government's social objectives and employment opportunities (e.g. if hours of work are reduced for minimum wage earners in firms unable to adjust quickly to a large increase).
48. I consider that an increase up to and including \$11.25 could be made with confidence in the current economic and labour market environment, but that a move to \$12.00 an hour would have a relatively much larger impact on the economy-wide wage bill, inflation, and could potentially constrain employment growth to a larger extent, particularly if there is an economic downturn, or if economic conditions soften.
49. More income and social benefits will accrue to minimum wage and low-paid workers from options 3A – 3C (an increase above the rate needed to maintain relativity with average wages and the CPI), and any of these options would also send a clear signal about the government's intention to reach the \$12.00 an hour goal. Any of these options would increase the real value of the minimum wage, will raise the level of protection, improve income distribution levels and increase the incentives to work.

## SECTION C: POTENTIAL SOCIAL IMPACTS OF INCREASING THE MINIMUM WAGE

50. The benefits of minimum wage increases are likely to be felt most strongly among women, younger workers, Maori, Pacific peoples, other non European/Pakeha groups, people without post-school qualifications, part-time workers, people with disabilities, recent migrants, the low skilled and people with non-English speaking backgrounds. Changes in the minimum wage also disproportionately affect employees in the retail, hospitality, health/community, agriculture/forestry/fishing/mining, manufacturing and property/business sectors, and in SMEs due to the higher proportion of low wage employees in these sectors and SMEs.
51. These groups would, however, also be the first to experience any negative impacts that could result from a minimum wage increase, particularly if there was an increase above \$1.00 an hour (e.g. reduced hours worked, or substitution of some groups of workers by others).
52. The following tables show the share of wage and salary workers directly affected by the different options for the minimum wage. These tables exclude people who currently report non-compliance with the minimum wage rate (94,700 or 5.9% of adults) due to uncertainties about the impact on this group and the reliability of this data. If people who are close to the wage bands also receive an increase in their hourly rate as a result of an increase in the wage band, more people will be affected by the increases. Option 1 (\$10.25) is not shown on these tables as it is the current adult minimum wage rate and therefore has no impact. These tables show that a move to Option 3B (\$11.25 for adults and \$9.00 for youth) will directly benefit 119,100 people.

*Table 3: Percentage and number of wage and salary workers directly affected by the options - Adult<sup>3</sup>*

Option <sup>4</sup>	18-64 years		18-19 years		20-24 years		24-64 years	
<b>2</b> \$10.70	2.8%	45,100	16.5%	10,400	4.8%	9,200	1.9%	25,400
<b>3A</b> \$11.00	4.0%	63,200	19.4%	12,200	7.3%	14,100	2.8%	36,900
<b>3B</b> \$11.25	6.9%	109,900	26.9%	16,900	12.5%	24,300	5.1%	68,700
<b>3C</b> \$12.00	10.4%	166,500	38.0%	23,900	18.6%	36,100	8.0%	106,500
Population		1,596,600		62,900		194,100		1,339,600

<sup>3</sup> Note: All figures have been rounded to the nearest 100 so some rows may not add up to the rounded total.

<sup>4</sup> Table 3 shows the number of workers directly affected for each option – e.g. Option 2 shows all the workers earning \$10.25 - \$10.69, Option 3A shows all the workers earning \$10.25 - \$10.99 and so on. Table 4 has been calculated the same way.

Table 4: Percentage and number of wage and salary workers directly affected by the options - Youth

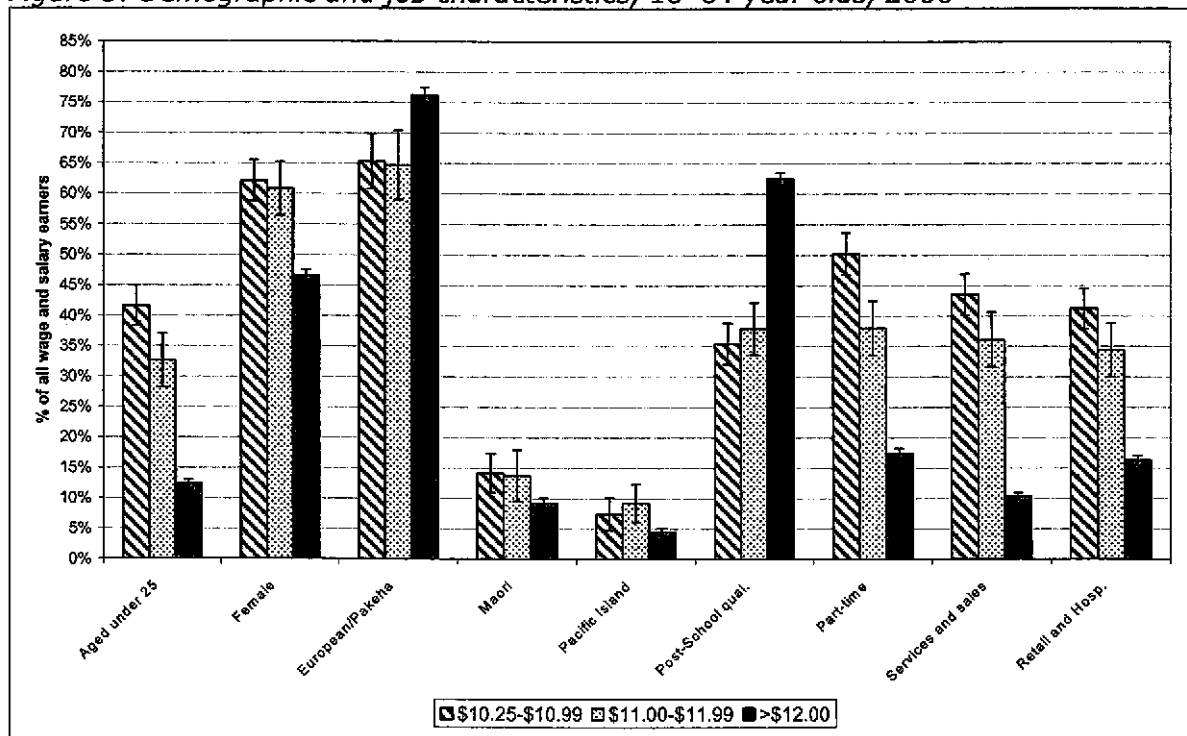
Option	16-17 years	
<b>2</b> \$8.56	13.1%	7,600
<b>3A</b> \$8.80	15.4%	9,000
<b>3B</b> \$9.00	15.8%	9,200
<b>3C</b> \$9.60	28.8%	16,700
Population		58,100

53. I recommend that no changes are made to the relativities between the youth rate, training rate and adult rate, or to their coverage, while the Department undertakes further work in this area. This work is being completed in the context of the Minimum Wage (Abolition of Age Discrimination) Amendment Bill which is currently before the Transport and Industrial Relations Committee. The report back date for the Bill is 31 May 2007. Enactment of the Bill would remove the ability of the Governor-General to set minimum wage rates under the Minimum Wage Act 1983 that discriminate on the grounds of an employee's age. The Bill would consequentially amend the relevant Minimum Wage Order to remove such provisions. The provisions of the Minimum Wage Act 1983 that provide for a Trainee Rate and for Under Rate Workers Permits (minimum wage exemption permits) would remain unaffected by this Bill.<sup>5</sup> Any changes to the youth rate may have implications for the training rate.
54. As this paper does not propose any changes to the current relativities, it means the youth rate and training rate would remain at 80% of the adult rate and apply to 16 and 17 year olds (youth rate) and to those aged 16 years and older who are undertaking at least 60 credits a year of a registered industry training programme (training rate), pending any other changes that might occur. Therefore a rise in the adult rate will result in a proportional rise in the youth rate to maintain this relativity.
55. The interplay between Working for Families and the minimum wage is important for assessing the combined impact on household income. The Working for Families package, unlike the minimum wage, is targeted primarily at low to middle-income families with children. An increase in the household income of families' with children, as a result of an increase in minimum wage rates, may result in a reduction in the amount of Working for Families assistance they receive. Any such reduction will depend on current household income, the number and age of children in the household, and the number of hours worked. The Department considers that because minimum wage increases benefit all minimum wage earners, irrespective of family status, the minimum wage continues to usefully complement other instruments to improve the income levels of low-income workers and households

<sup>5</sup> There were 80 submissions on this Bill, 65 submitters supported the Bill (including the National Advisory Council on the Employment of Women, the New Zealand Council of Trade Unions, Unitel and the Youth Union Movement of Aotearoa) and 15 submitters opposed the Bill (including Business New Zealand, the National Association of Retail Grocers and Supermarkets of New Zealand, and the New Zealand Retailers Association).

56. Households that contain at least one minimum wage worker are spread among all household income deciles but are concentrated among the poorest 50% of in-work households. However, even the richest in-work households contain minimum wage workers. This is likely to reflect young people working in minimum wage jobs while living at home with their wealthy parents. An increase in the minimum wage will not affect the majority of the poorest households as they are less likely to contain a minimum wage worker.
57. *Figure 3* presents the demographic and job characteristics for 18–64 year olds for three different hourly wage bands: those earning greater than \$12.00 an hour, those earning between \$11.00–\$11.99 an hour (Options 3A–3C) and those earning between \$10.25–\$10.99 an hour (Options 1–2).
58. *Figure 3* shows that the following groups are over-represented amongst those earning less than \$12.00 an hour: younger workers (aged under 25 years), women, Maori and Pacific Island groups, part-time workers and those without a post-school qualification.

*Figure 3: Demographic and job characteristics, 18–64 year olds, 2006*



Note: whisker plots represent the 95% confidence interval for each population estimate<sup>6</sup>

<sup>6</sup> This means there is a 95% probability that the true value for the whole population lies between the range of values shown by the whisker plots.

## **SECTION D: POTENTIAL ECONOMIC IMPACTS OF INCREASING THE MINIMUM WAGE**

59. I consider that an increase up to and including \$11.25 could be made with confidence in the current economic and labour market environment, but that a move to \$12.00 an hour would have a relatively much larger impact on the economy-wide wage bill, inflation, and could potentially constrain employment growth to a larger extent, particularly if there is an economic downturn, or if economic conditions soften.
60. Recent New Zealand qualitative research shows that firms respond to increases in the minimum wage by using a variety of strategies. The research showed that the strategies used include compression of the wage scale, increasing work intensity (e.g. reducing paid hours per employee, tightening the weekly rosters and by not replacing workers who resign) or by tightening employment policy. Firms surveyed in the research indicated longer term responses could include raising labour productivity, reducing other costs and possible business retrenchment or closure. Some firms also raised prices in response to their increased wage costs. The responses used by firms depend on factors such as whether a firm is operating in a context of global competition or in the domestic market, whether a firm supplies tradeable or non-tradeable products, the nature of its industry structure and customers, and whether it is providing services under long-term contracts (see paragraph 67 for further discussion).
61. The Department examined the hourly wage distributions for different age groups in 2005 and 2006 which suggested that workers paid slightly more than the minimum wage have retained their wage relativities in the period 2005–06. This shows that the 2005 minimum wage increase does not appear to be having much of a compression effect at the aggregate level. This suggests that, at the aggregate level, there remains potential for future minimum wage increases to be absorbed without significant negative impacts on the lower end of the wage distribution.
62. The following table shows the economic impacts on the economy-wide wage bill, inflation, the projected job growth from March 2007 – March 2008 and potential level of constraint on employment growth.

Table 5: Summary of economic impacts

Option	Increase in economy-wide wage bill	Increase in inflation	Projected job growth, reflecting the potential level of constraint on job growth	Potential level of constraint on employment growth *
1 \$10.25	no change	no change	21,400	no impact
2 \$10.70	0.05% (\$33 million)	0.02%	21,400	no impact
3A \$11.00	0.08% (\$54 million)	0.04%	21,000 - 19,700	400 - 1,700
3B \$11.25	0.15% (\$98 million)	0.06%	20,700 - 18,300	700 - 3,100
3C \$12.00	0.52% (\$335 million)	0.22%	19,700 - 14,100	1,700 - 7,300

\* This has been calculated using a set of hypothetical employment elasticities that are broadly derived from econometric analysis conducted by the Department and elsewhere.

63. While a large number of workers can be affected by the different options, lower-income workers are generally working fewer hours, and so account for a relatively small share of weekly earnings. This means that the impact on the overall wage bill from an increase in the minimum wage is less significant than, for example, a general increase in wages.
64. The overall impact on the wage bill and inflation from an increase in the minimum wage to one of the five options is relatively small (although the impact increases as the value of the options increase, most significantly observed in the difference between options 3B and 3C). The potential level of constraint on employment growth, if it occurs at all, is not significant compared to the reasonably strong projected job growth. The research outlined in paragraph 60 shows that firms use a variety of strategies to respond to increases in the minimum wage and do not necessarily respond to increased labour costs by reducing the number of workers they employ. Estimating a potential level of constraint on employment growth does not adequately reflect the dynamic nature of employment responses to changes in minimum wages or any other of the longer term responses a firm may make, such as any investments that employers may make to increase the productivity of low- paid workers. On balance, I consider the risk of significant negative impacts for an increase in the minimum wage up to and including \$11.25 an hour is low.
65. However, the impact at the firm or sector level may be significant for those firms and sectors that employ a large number of workers who will be affected by, and will need to respond to, an increase in the minimum wage.
66. The sectors most affected by an increase in the minimum wage are retail, hospitality, health/community, agriculture/forestry/fishing/mining, manufacturing and property/business sectors as these sectors have a higher proportion of lower paid workers. The following table shows the impacts, at sector level, of those affected by Option 3A (an increase to \$11.00 an hour for adults and \$8.80 an hour for youth - option 3A was chosen as it was the middle option considered in the minimum wage review.) While the percentages and numbers of those affected would differ for the other options, the Department is confident that the ranking of these sectors in

terms of those most affected by a minimum wage increase is unlikely to change.

Table 6: Impact of Option 3A (by sector) – all workers aged 16 – 64 years

Sector	% of Workers Affected	Number of Workers Affected	Increase in annual wage earnings (\$ million)
Retail	10.9%	22,200	10.6
Hospitality	7.0%	9,800	9.1
Health/Community	5.8%	10,000	3.0
Agriculture/Forestry/ Fishing/Mining	5.4%	4,000	5.6
Cultural/Recreational	5.1%	1,800	0.3
Wholesale	3.3%	3,000	3.0
Manufacturing	3.0%	7,200	9.0
Construction	3.0%	3,500	2.5
Property/Business	2.6%	4,500	4.6
Education	1.7%	2,600	0.5
Utilities/Transport/ Finance/Government	0.7%	1,300	1.5

67. Table 6 shows that around 11% of workers in the retail sector and 7% of workers in the hospitality sector will be affected if Option 3A is chosen. These sectors would face potential wage costs increases of \$10.6 and \$9.1 million respectively. Qualitative research shows that the retail and hospitality sectors should have more scope than other sectors to raise prices in response to an increase in the minimum wage, as they supply non-tradeable products to the domestic market. While these sectors typically face strong competition from other businesses in their sector, a sector-wide increase in labour costs can be passed on in higher prices. In the research project, firms from the supermarket sector advised that minimum wage changes are passed through to prices, while firms from the fast food sector and the business cleaning services sector were more cautious and advised they would look for offsetting savings in the business before increasing prices.
68. Within all sectors, SMEs are more likely to be impacted by minimum wage increases due to the higher proportion of low-wage employees in SMEs. In this context, the Small Business Advisory Group submitted that the impact of minimum wage increases are particularly felt by SMEs.

## SECTION E: THE 2007 MINIMUM WAGE REVIEW

69. In the course of the 2006 minimum wage review, officials identified some possible improvements for next year's minimum wage review.
70. For the 2007 review, officials will review the objectives to ensure that they remain relevant, with a view to exploring the Small Business Advisory Group's suggestion that consideration be given to determining an economic objective for the minimum wage, in addition to the social objectives. Consideration will also be given to the inclusion of a specific objective relating to the contribution of the minimum wage to pay and employment equity.

71. Some work was done on the impact of the Working for Families package for this year's minimum wage review, but firmer modelling will be finalised with the Ministry of Social Development around the impact on minimum wage increases on Working for Families recipients following the implementation of Working for Families phase 2.
72. When officials examined the hourly wage distributions for different age groups for the 2006 review, the data used could only show the hourly wage distribution at an aggregate level. The data did not measure changes in wages for individuals. Consequently, the Department will explore using longitudinal datasets for the 2007 review, in order to investigate whether individuals received a wage increase in line with the minimum wage increase.
73. When examining the demographic and job characteristics of low-paid workers, the Department identified that about 50% of those earning \$10.25-\$10.99 an hour are in part-time work compared to only about 17% of those earning \$12.00 or more an hour. The Department is unclear as to why part-time workers tend to earn less per hour than full-time workers, and is exploring the possibility of research to clarify the link between low-pay and part-time work before the 2007 review.

## **SECTION F: OTHER IMPLICATIONS, TIMING AND CONSULTATION**

### **Fiscal implications**

74. The overall fiscal impact of increases in adult and youth minimum wages is unclear, but is likely to be small as a relatively small proportion of the workforce earn minimum wages. If some people's hours of work are reduced or they remain unemployed as a result of the increases, benefit payments would be affected. For others, higher wages may mean a slight increase in tax paid or a reduction in income support payments.
75. There are a small number of state sector employees (and contractors) that earn wages of \$12.00 an hour or less, particularly in the public health and compulsory education sectors. Future increases in the minimum wage are therefore likely to have direct (and possibly also indirect or flow-on) costs for some state sector employers. State sector employees may bargain with their employers to retain their relativities. These costs and the likelihood that organisations will seek additional funding to compensate for them will be higher for larger movements towards the goal of \$12.00 an hour.

### **Human rights implications**

76. The proposed adjustment of minimum wage rates draws a distinction between workers on the basis of age, with the youth minimum wage for 16 and 17 year olds being less than the adult minimum wage for workers aged 18 years and older. This proposal is consistent with the New Zealand Bill of Rights Act 1990, as it is specifically provided for under the Human Rights Act 1993.

### **Gender implications**

77. Women are over-represented amongst those earning low wages. Approximately 61% of all wage and salary workers earning \$10.25-\$11.99

an hour are women. Women, therefore, would be expected to benefit from any resulting wage increases.

78. An increase in the minimum wage is particularly important to improve levels of fairness and protection for some groups of more vulnerable women, who may be in non-unionised areas and/or have limited bargaining power, or may be in jobs in which pay and employment equity strategies have little effect. The National Advisory Council on the Employment of Women (NACEW) submitted that the benefits of increasing the minimum wage are significant, as women are disproportionately represented in lower paid and more precarious, casual work. NACEW also submitted that an increase in the minimum wage may have positive implications for related issues such as work-life balance and the unequal division of paid and unpaid work between women and men.
79. Increasing the minimum wage can make a contribution to reducing the gender pay gap. For example, the Department estimates that an increase in the minimum wage from \$10.25 to \$12.00 an hour will improve the gender pay ratio by three tenths of a percentage point (0.3) to 87.3%.

#### **Implications for people with disabilities**

80. People with disabilities are over-represented amongst those earning low wages. People with disabilities would be expected to benefit from increases in the minimum wage.

#### **Regulatory impact and business compliance cost statements**

81. A Regulatory Impact Statement / Business Compliance Cost Statement (RIS/BCCS) that complies with the requirements set out by the Cabinet Office is attached. Based on the information provided in the attached RIS/BCCS, the Regulatory Impact Analysis Unit considers that the disclosure of information is adequate, and the level of analysis is appropriate given the likely impacts of the proposal.
82. If the minimum wage is increased, employers will be required to raise the wages of those employees earning less than the new minimum wage from the time that the new minimum wage comes into force. Making wage adjustments will involve some compliance costs and require minor changes to payroll systems, but otherwise, the regulatory requirements would remain unchanged. Adjusting to higher minimum wage rates may impact more on some employers operating on relatively tight margins.

#### **Implementation, timing and publicity of the minimum wage decision**

83. I intend to make a media statement on the decisions about minimum wages following Cabinet confirmation. The Cabinet paper and the Officials' report will also be made publicly available through the Department's website.
84. Changes to minimum wage rates are implemented by Order in Council. The process for authorisation by Cabinet, drafting and the 28 day waiting period for regulations mean that minimum wage changes generally come into force in March. I consider that an appropriate date for minimum wage increases recommended in this paper to come into force is 1 April 2007, to coincide with the implementation date of four weeks' annual holidays and the Small Business Advisory Group's recommendation for common implementation dates for regulatory changes.

## Consultation

85. Submissions were invited from a number of organisations as part of this review. In addition, the Department of Labour met separately with the New Zealand Council of Trade Unions, the Small Business Advisory Group, the New Zealand Chambers of Commerce and Business New Zealand to discuss some of the key issues relating to their submissions (see Appendix A for a summary of submissions).
86. The Treasury, Ministries of Education, Women's Affairs, Pacific Island Affairs, Health, Social Development, Economic Development, and Youth Development, Te Puni Kokiri, the Tertiary Education Commission, and the Office for Disability Issues have been consulted on this paper. A copy of this report has also been provided to the Department of the Prime Minister and Cabinet.
87. The Ministry of Social Development supports Options 2 (\$10.70), 3A (\$11.00) or 3B (\$11.25), as they preserve or increase the margin between benefit levels and minimum wages, thereby improving incentives for people to work. The Ministries of Social Development and Youth Development consider that an increase greater than \$1.00 may negatively impact on employment growth and inflation. The Ministry of Pacific Island Affairs supports Option 2 (\$10.70). The Ministry of Women's Affairs and Te Puni Kokiri support an increase in the minimum wage above the level of inflation (i.e. higher than Option 2: \$10.70). The Treasury supports raising the minimum wage in 2007 as a path to the Government's agreed increase in the minimum wage to \$12.00 an hour by the end of 2008 and supports Option 3A (\$11.00). The Office for Disability Issues supports Option 3B.
88. The Ministry of Youth Development comments that over 40% of those receiving less than \$11.00 an hour are 18-24 year olds. Therefore any change in the minimum wage will impact on young people. Although a large rise in the rate may increase the likelihood of a negative employment impact for 16-24 year olds, the minimum wage is an important protective function for vulnerable workers.
89. The Treasury comments that raising the minimum wage to the recommended \$11.25 per hour would be a greater increase than previous adjustments and would directly affect 6.9% of adult workers (109,900 people) and 15.8% of youth workers (9,200 people). This is a significantly larger impact than an increase to \$11.00 per hour, which would directly affect 63,200 adults and 9,000 youth. This increases both the potential benefits and the risks of adverse economic effects. Groups such as young workers, women and Maori and Pacific people are the most likely to benefit, but would also likely be the first to feel the impact of any negative impacts. The September quarter this year has seen a small fall in employment and labour force participation rates, but overall the labour market remains strong. Labour-market conditions are expected to weaken somewhat over 2007, but the weakening is not expected to be sufficient to justify not increasing the minimum wage. However, in light of the above considerations, the Government may wish to consider, as a cautious approach, raising the 2007 rate to \$11.00 rather than \$11.25.

## RECOMMENDATIONS

90. I recommend that the Cabinet Policy Committee:

1. **note** that I considered the following options for this year's minimum wage:
  - **Option 1: \$10.25** an hour or \$410 for a forty hour week (status quo – recommendation of Business New Zealand, Federated Farmers of New Zealand, National Association of Retail Grocers and Supermarkets of New Zealand).
  - **Option 2: \$10.70** an hour or \$428 for a forty hour week (to provide a \$0.45 increase, which is the same increase in average hourly earnings between June 2005 and June 2006, and reflects the increase in the CPI for the June 2006 year – New Zealand Retailers Association recommends an increase in line with the CPI).
  - **\$10.75** an hour or \$428 for a forty hour week (to provide a \$0.50 increase which is in line with former increases since 1999).
  - **\$10.80** an hour or \$432 for a forty hour week (to provide a \$0.55 increase, which is the same increase as the increase in the Labour Cost Index for the June 2006 year – New Zealand Retailers Association also recommends an increase in line with the Labour Cost Index).
  - **Option 3A: \$11.00** an hour or \$440 for a forty hour week (to provide a \$0.75 increase, which is the same increase chosen in last year's review).
  - **Option 3B: \$11.25** an hour or \$450 for a forty hour week (to provide a \$1.00 increase).
  - **Option 3C \$12.00** an hour or \$480 for a forty hour week (to provide a \$1.75 increase to immediately achieve the government's goal – recommended by New Zealand Council of Trade Unions, Unite! and the Youth Union Movement).
2. **note** that I consider an increase in the minimum wage in 2007:
  - to Option 2 (\$10.70 an hour), in order to maintain relativity to average wages, will preserve the real value of the minimum wage and could be made with confidence in the current economic and labour market conditions. Such an increase will provide benefits to an estimated 45,100 recipients without any impact on employment growth.
  - to Option 3A or 3B (\$11.00 or \$11.25 an hour), which is above the rate needed to maintain relativity to the average wage, could be made with confidence in the current economic and labour market conditions, to reflect a stronger view of the contribution of the minimum wage to its objectives, and to communicate a stronger message about reaching the government's goal for the minimum

wage. An increase to either of these options may result in slightly less employment growth than otherwise would have occurred.

- to Option 3C (\$12.00 an hour), which is above the rate needed to maintain relativity to the average wage, would increase the likelihood of constraining potential employment growth.
3. **note** that the benefits of minimum wage increases are likely to be felt most strongly among women, younger workers, Maori, Pacific peoples, other non European/Pakeha groups, people without post-school qualifications, part-time workers, people with disabilities, recent migrants, the low skilled and people with non-English speaking backgrounds. Changes in the minimum wage also disproportionately affect employees in the retail, hospitality, health/community, agriculture/forestry/fishing/mining, manufacturing and property/business sectors, and in small/medium enterprises (SMEs) due to the higher proportion of low wage employees in these sectors and SMEs. These groups would, however, also be the first to experience any negative impacts that could result from a minimum wage increase, particularly if there was an increase above \$1.00 an hour (e.g. reduced hours worked, or substitution of some groups of workers by others).
  4. **agree** that the minimum wage rate for 2007 should be \$11.25 an hour for adults and \$9.00 an hour for youth and trainees.
  5. **agree** that the youth minimum wage rate should continue to apply for 16 and 17 year old employees and remain at 80% of the adult rate for 2007, pending further work being undertaken by the Department of Labour around options to address issues associated with youth rates in the context of the Minimum Wage (Abolition of Age Discrimination) Amendment Bill.
  6. **agree** that the training minimum wage rate should remain at 80% of the adult rate for 2006, pending further work being undertaken by the Department of Labour.
  7. **agree** that any increase in the minimum wage will come into effect on 1 April 2007.
  8. **instruct** officials and the Parliamentary Counsel Office to work on drafting the Minimum Wage Order 2007.
  9. **note** that I intend to make a media statement on the decisions about minimum wages following Cabinet confirmation and that the Cabinet paper and the Officials' report will be made publicly available through the Department of Labour's website.

#### **The 2007 minimum wage review**

10. **note** that, in order to better inform the 2007 review, the Department of Labour will:
  - review the objectives for the 2007 minimum wage review to ensure that they remain relevant.

- work with the Ministry of Social Development to finalise the modelling work around the impact of minimum wage increases on Working for Families recipients following the implementation of Working for Families phase 2.
- explore the possibility of research to clarify the link between low-pay and part-time work before the 2007 review.
- explore using longitudinal datasets for the 2007 review, to investigate whether individuals received a wage increase in line with the minimum wage increase.



Hon Ruth Dyson  
Minister of Labour

## Appendix A

### SUMMARY OF SUBMISSIONS

1. Submissions were received from the following organisations:  
Business New Zealand, Federated Farmers of New Zealand, the Mayors Taskforce for Jobs, the National Advisory Council on the Employment of Women, the National Association of Retail Grocers and Supermarkets of New Zealand, the New Zealand Association of Registered Hairdressers, the New Zealand Chambers of Commerce (on behalf of the Auckland Regional Chamber of Commerce, the Wellington Regional Chamber of Commerce, Canterbury Employers Chamber of Commerce and Otago Chamber of Commerce), the New Zealand Council of Trade Unions, the New Zealand Retailers Association, the Small Business Advisory Group, Unite! and the Youth Union Movement of Aotearoa.
2. Department officials also consulted with the Ministry of Pacific Island Affairs' Community Reference Group in Auckland to ensure the minimum wage review reflects a Pacific Island perspective.
3. The main points made in each submission are outlined in Tables 1 and 2 below.

Table 1: Summary of submissions by organisation

<p><b>Business New Zealand</b></p>
<p>Business New Zealand recommends no further increases to the adult or youth minimum wage rates at this time. It does not support increasing the minimum wage to \$12.00 an hour.</p> <ul style="list-style-type: none"> <li>• It is disappointed that the government appears to take a view that increasing the minimum wage rates is more a political decision than an economic decision.</li> <li>• Rather than making a full submission, Business New Zealand has included a copy of its 2005 submission as it believes that it is just as relevant now as it was last year. It has also included information on two new studies which show the adverse effects on employment of increasing adult and youth minimum wage rates. Additionally, a survey conducted by EMA Northern showed that one-third of employers would stop employing 16-17 year olds if youth rates were abolished.</li> <li>• Studies show that Maori are a subgroup most adversely affected by a higher minimum wage.</li> <li>• The main points from Business New Zealand's 2005 submission are:             <ul style="list-style-type: none"> <li>○ There should be no further increases in either the youth or adult minimum wage rates, or extensions in coverage.</li> <li>○ The government should focus on increased access to training and employment for young people. The youth minimum wage rate should not be abolished.</li> <li>○ The government should consider tax cuts rather than increases in the minimum wage rates as a more effective way of increasing real wages for relatively low-paid workers.</li> <li>○ Government's focus should be on increased access to training and employment to achieve higher productivity and real earnings over time.</li> <li>○ Legislatively-set minimum wages create employment obstacles for the young and unskilled.</li> <li>○ Concerned about inflationary pressures due to flow-on effects.</li> <li>○ Youth minimum wage has distortionary effect on the labour market.</li> <li>○ Business New Zealand provided survey information that shows that 65% of employers are generally prepared to accept increases about the level of the rate of inflation only. Around 20% were prepared to accept an increase to \$12 an hour for adults.</li> <li>○ Economic indicators suggest increases may not continue to be sustainable, especially for the manufacturing, accommodation, cafes and restaurants, retail trade and construction industries. Recent increases that have been greater than the rate of inflation may have negative impacts on employment in these industries when economic growth slows, especially for young/unskilled workers.</li> <li>○ Statistics New Zealand is provided with funding for the development of Cost of Living indices (or real disposable income indices), as a guide for increases to the minimum wage.</li> </ul> </li> </ul>
<p><b>Federated Farmers of New Zealand</b></p>
<p>Federated Farmers recommends leaving the minimum wage at its current level.</p> <ul style="list-style-type: none"> <li>• Federated Farmers accepts the need for a statutory requirement to protect the most vulnerable.</li> <li>• Substantially increasing minimum wages is neither a credible nor sustainable policy tool to achieve higher wages. An artificial, centrally</li> </ul>

imposed intervention can never reflect competitiveness or productivity at an enterprise level and would therefore serve only to squeeze already tight business margins, discourage employment and increase inflationary pressures.

- The Government's social objectives for the minimum wage would be better achieved through other means such as relief delivered via the social welfare and tax systems. The Government should continue its policies aimed at improving people's skills.
- More needs to be done to improve the incentives for people to work.
- Federated Farmers are concerned with the government's goal to increase the minimum wage to \$12 an hour.
- The Minimum Wage Act 1983 limits the amount an employer may deduct from an employee's wages for board or lodging provided by the employer when an employee is on or close to the minimum wage rate. Federated Farmers consider this restriction is now outdated and discriminatory by effectively imposing a higher minimum wage for the agricultural sector. Federated Farmers would like the Minister to review this provision.

### Mayors Taskforce for Jobs

The Mayors Taskforce is supportive of the annual review of the minimum wage and would like to see the implementation of the minimum wage rate to \$12 an hour before 2008, if possible.

- Recent rises in costs and the consequent erosion of wages mean that lifting the adult minimum wage as soon as possible is the preference of low income people in our communities.
- Continued review and lifting of the minimum wage could contribute to greater investment in skills training, leading to increases in productivity and will avoid increasing the disparity in wage levels between Australia and New Zealand.
- Mayors are concerned over the numbers of young people aged under 25 years who remain on benefits other than unemployment.

### National Advisory Council on the Employment of Women (NACEW)

The benefits of increasing the minimum wage are significant for those whom NACEW represent. With women being disproportionately represented in lower-paid and more precarious, casual work, the use of the minimum wage is very important to improve pay and employment equity.

- Addressing the gender pay gap through the minimum wage may also have positive implications for work-life balance and the unequal division of paid and unpaid work between women and men.
- Calls for research into impacts of minimum wage increases on small/medium enterprises (SMEs) and on productivity; and research into impacts of moving to \$12 an hour on low-wage earners, businesses (especially SMEs), productivity and the economy.
- Calls for work to monitor and research the cumulative effects of low pay for women, including on ethnicity and age.
- NACEW's views on the minimum wage are still consistent with its 2005 submission. Main points from that submission are:
  - moderate increases in the minimum wage are likely to have a positive effect on the employment experiences of women;
  - cites Pay and Employment Equity Taskforce 2004 finding that there is positive evidence that raising the minimum wage would have a positive effect on closing the gender pay gap; and
  - an increase in the minimum wage could stimulate women to increase their labour market participation, as well as helping to

address pay and employment equity issues for women.
<b>National Association of Retail Grocers and Supermarkets of New Zealand (NARGON)</b>
<p>NARGON recommends that there is no increase in minimum wage rates but an increased focus on training for young people.</p> <ul style="list-style-type: none"> <li>• NARGON firmly believes that any increases in, or extensions of, the minimum wage rate would distort the labour market by reducing jobs and employment opportunities.</li> <li>• Industry has low-profit margins but costs are hard to pass on to consumers, therefore any increase in wages will have a significant impact on bottom line profitability and threaten viability. May lead to reduced staffing levels.</li> <li>• NARGON cites recent studies which show that increased minimum wages increase unemployment and reduce employment.</li> <li>• Minimum wage has increased at a faster rate than other wages in recent years.</li> <li>• Minimum wage increases have flow-on inflationary effects.</li> <li>• Significant increases in wage rates are sustainable only if based on increases in productivity.</li> </ul>
<b>New Zealand Association of Registered Hairdressers (NZARH)</b>
<p>NZARH would support the government's goal for the minimum wage to reach \$12 an hour by the end of 2008.</p> <ul style="list-style-type: none"> <li>• NZARH believes that a separate, lower youth rate is justified.</li> <li>• The industry is strongly supportive of maintaining a training differential on the same terms at present.</li> </ul>
<b>New Zealand Chambers of Commerce</b>
<p>The Chambers acknowledge that a <i>minimum</i> wage provides a safety net for a small minority, and this should be its core objective. It should not be seen as a means of raising wage levels.</p> <ul style="list-style-type: none"> <li>• Policies that focus on increasing productivity, improving skills and enhancing the business environment are more effective ways to raise the overall level of wages in New Zealand.</li> <li>• The Chambers view the "provided economic conditions permit" proviso in the government goal is crucial and it is important that there is sufficient flexibility to waive increases in the minimum wage rate should economic conditions make it undesirable.</li> <li>• The Chambers note that the increase to \$12 is higher than forecast wage increases.</li> <li>• The Chambers support the youth rate differential to enable young people to get a foot in the door for employment and think its relativity to the adult rate is appropriate.</li> <li>• However, the Chambers also support in principle the removal of discrimination between young people and adults with respect to their minimum hourly earnings in situations of equal work and especially in full time employment.</li> </ul>
<b>New Zealand Council of Trade Unions (NZCTU)</b>
<p>The NZCTU recommends increasing the minimum wage rate to \$12 an hour immediately. It believes that the economic conditions exist now to support an increase to \$12 an hour.</p> <ul style="list-style-type: none"> <li>• The NZCTU also recommends a phased rise in the minimum wage to a level that is 66% of the average ordinary time hourly rate and that ratio should</li> </ul>

be maintained.

- Youth rates should be removed immediately and extended to include under 16 year olds.
- Training rates should be increased to 90% of the adult minimum wage.
- There should be a government agency charged with gathering more information about low pay in New Zealand.
- Responsible contactor policies also represent an important tool in addressing low wages.
- More thorough enforcement and stronger penalties should be used to ensure comprehensive adherence to the minimum wage.
- NZCTU notes that Maori, Pacific Island and women workers are disproportionately represented in low-wage sectors and that raising the minimum wage will assist them.
- Reasons in favour of raising the minimum wage are:
  - the current minimum wage is too low relative to the average hourly wage, the average minimum printed weekly wage in collective contracts and the Australian minimum wage;
  - wages in general are low, despite labour shortages;
  - raising the minimum wage does not increase unemployment;
  - raising the minimum wage will increase labour participation rates and plays an important role in social inclusion, attempts to alleviate poverty and improving work-life balance;
  - the minimum wage is an important safety net when there is no award system, low collective bargaining coverage and increasing demand for temporary migrant labour;
  - a higher minimum wage will increase productivity as it will promote investment in skill development, focus employers' attention on raising productivity and encourage investment in capital;
  - it will promote social justice. Living standard indicators show that a significant proportion of the population is experiencing hardship and the disparity of income distribution is increasing;
  - raising the minimum wage will help to close the gender pay gap;
  - international commitments to the United Nations (UN) and International Labour Organisation (ILO). The UN Declaration of Human Rights (article 23(2)) and the UN International Covenant on Economic Social and Cultural Rights (article 7) embody an obligation to ensure "the right to just and favourable remuneration". The ILO's Declaration of Philadelphia included an identification of the guarantee of adequate wages as a task of governments. Recommendation 30, a guide to ILO Convention 26, which New Zealand has ratified, states that minimum wages should be set according to the "general level of wages prevailing in the country".

#### New Zealand Retailers Association

The Retailers Association recommends that the present margins between adult and youth minima are correct, that the present adult minimum wage should maintain its present relationship with wage levels across the economy by applying the CPI or Labour Cost Index annually and that there is no reason for a minimum wage for those aged under 16 years.

- The minimum wage is a legitimate mechanism to protect inexperienced employees until they acquire the skills to command a higher wage.
- Survey of members shows that only a small proportion of retail employees are paid at the minimum rate (this applies for adult and youth workers).
- The Association's research shows that their members are paying in excess

of the minimum and do not need legislation to keep them honest.

- Retailers have very fine margins. Over-inflated minimum wage rates may lead to staff reductions or recruitment freezes and will also have inflationary effects.

### Small Business Advisory Group (SBAG)

The Small Business Advisory Group considers that the minimum wage policy is being misused. It is primarily a safety net and should be seen and used as such and nothing more. Increasing the minimum wage to \$12 an hour will have a negative impact on employment and increase inflation.

- The costs impact directly on business, particularly on SMEs, and on New Zealand's productivity and export competitiveness.
- It drives inflation and is a barrier to labour force participation for those who need jobs most.
- Ability to pay should be part of the criteria in setting the minimum wage.
- Current objectives of fairness, income distribution and work incentives are inappropriate (should be addressed through the social welfare and tax systems).
- Using the wage market to meet these objectives:
  - distorts wages and puts upward pressure on wage relativities, putting business at risk if they cannot pass on costs;
  - is inflationary;
  - does not give people an incentive to work because the minimum wage is not competitive with what is paid by the social welfare system;
  - is a disincentive for people to upgrade their skills; and
  - is a disincentive for employers to hire those at the margin of society.

### Unite!

The Unite! SuperSizeMyPay.Com campaign's key goals are the introduction of a \$12 an hour minimum wage now - rather than in 2008, the abolishing of youth rates and secure hours of work.

- There has been very strong public endorsement for the key goals, including by political parties and the Wellington Chamber of Commerce.
- Unite! can see no evidence not to raise the minimum wage to \$12 immediately. The companies where their members work are doing very well financially.
- Unite! also supports moving to a minimum wage that is two-thirds of the average wage.
- Unite! rejects argument that the government does not need to take action on youth rates or lifting the minimum rate because these are being successfully negotiated through industrial relations arrangements. There are barriers to effective negotiations in many areas of employment.
- Important for the government to understand fully the context in which low paid workers exist when considering the minimum wage review.
- Unite! rejects argument that increasing the minimum wage will have "flow-on" effect further up the wage scale that would affect employers "very badly". Despite increases in minimum wage in last two years there has not been a significant effect on wages as whole. Overall increases in wages in past two years continue to be less than the rate of inflation.
- Unite! also rejects argument that if employers have to pay \$12 an hour they will hire a more experienced worker rather than someone straight out of school. Unite! is not aware of any discernable evidence produced that indicates that this has occurred to any measurable extent over the past 6

years.

### Youth Union Movement of Aotearoa (YUM)

The Youth Union Movement's submission is supplementary to the NZCTU's submission and it endorses many of NZCTU's points. YUM calls for a single minimum wage of \$12 to be implemented immediately and to cover every worker.

- YUM shares the view that a minimum wage of at least \$12 must be introduced to tackle poverty, promote social justice and maintain a sense of fairness.
- YUM calls for the elimination of discrimination on the grounds of age in the minimum wage provisions. It believes that the minimum wage for 16-17 year olds should be lifted immediately to the adult rate and that a minimum wage at the adult rate be instituted for those aged under 16 years.
- Its submission focuses on youth rates and it applies the criteria used to assess the minimum wage review to argue for one minimum wage for all workers. More details are in the youth minimum wage rates section below.

*Table 2: Results from consultation with the Ministry of Pacific Island Affairs' Community Reference Group*

### Ministry of Pacific Island Affairs' Community Reference Group Members (MPIA CRG)

- Pacific people are primarily in vulnerable jobs and are likely to receive the minimum wage or low pay.
- If the minimum wage was increased there may be positive changes in the social status of Pacific peoples such as better health; higher quality food; more Pacific people working and a greater incentive to move from benefits into employment.
- Pacific families are extended so there are more mouths to feed, which can lead to parents having more than one job and not being at home. Kids are left alone and this can lead to them getting into trouble to the point of joining gangs.
- Increased wages may mean parents only have to work one job.
- Because of the large number of Pacific workers on the minimum wage, a nil increase in the rate can negatively affect the whole community.
- However, an increase in the minimum wage may also have negative effects if it leads to job losses and reduced hours.
- Concern was raised about access to gaining residency. Some Pacific groups (those from Tuvalu, Fiji, Tonga and Samoa) who gain a work visa are not meeting the criteria for residency (employed, earning minimum of \$12 an hour) when their name is pulled out of the ballot. As most Pacific workers are in low paid and low skilled employment they will start on the minimum wage and it takes more than two years for them to reach \$12 an hour.
- The impact of an increase in the minimum wage on businesses would depend on the type and size of the business. Increases in the minimum wage could adversely affect Pacific employers as the majority are small businesses, while larger businesses are in a better position to absorb the increased costs.
- Pacific groups, particularly new migrants, need to be made aware of their

rights under the minimum wage. MPIA CRG members believe that information on the minimum wage is not generally accessible to Pacific peoples. Some Pacific employees would be apprehensive about lodging a complaint due to fear of losing their jobs if their employer found out.

- MPIA CRG members discussed "no win/no fee" employment consultants and considered that this mechanism is beneficial for Pacific people as it is the only way to afford legal representation on the minimum wage.
- Need to understand the minimum wage and the relationship to improving the quality of life for Pacific peoples.
- It was noted that the living standards report showed that the increase in employment rates did not increase living standards. Need to know more about this to understand why this is the case and to measure how the minimum wage can contribute positively to quality of life.
- Recent strike action affected many Pacific peoples and highlighted how hard it is for Pacific employees to negotiate a good wage if they are not in a union. The minimum wage will provide protection for these people.
- There were mixed views on the youth minimum wage rate; some see a lower rate as discouraging youth from working but there are also Pacific youth working to be less reliant on, or to contribute to, their family income.
- Comment on the government's goal of increasing the minimum wage to \$12 an hour by 2008, that by 2008 with inflation and cost of living increases, the minimum wage will be worth what it is now.

### **Youth Minimum Wage Rates and Training Rates**

4. Key submitters were invited to provide additional submissions on a range of issues. The issues that received the most feedback were the youth minimum wage rates and training rates. The views of submitters are summarised below.

#### **Business New Zealand**

5. Business New Zealand supports a separate youth minimum wage. Removing the youth minimum wage sends the wrong signal to young people because employees on training agreements can still be paid the current youth rate. It will also hurt teenagers as employers have said they would stop employing 16-17 year olds if there is no youth minimum wage. It cites studies that show that increases to the youth minimum wage also increases youth unemployment.

#### **Federated Farmers of New Zealand**

6. Federated Farmers would prefer to keep the youth minimum wage at 80% of the adult minimum. Abolition of youth rates would increase unemployment of young people and exacerbate wage cost pressure. They say that it is unclear if the training rate has been a disincentive to offer training to young people. There are large increases in numbers undertaking formal training but this is due to a raft of other initiatives and a buoyant labour market.

### **Mayors Taskforce for Jobs**

7. The Mayors Taskforce believes that the existing training rate is sufficient to ensure that employing workers that are less productive does not affect the viability of a business. Increases in apprenticeships and industry training suggest many employers are training their workforce to meet industry needs and increase productivity.

### **Ministry of Pacific Island Affairs' Community Reference Group**

8. The views expressed on the youth minimum wage were mixed. Some see it as having a positive effect as youth are provided with opportunities to learn new skills, save money and experience what work is like. Also, it helps to encourage youth to undertake education or further training rather than being employed in low skill work. However, there are also Pacific youth working so as to be less reliant on, or to contribute to, their family income.
9. Some believed that the minimum wage should not be age based and that it is not fair to be paid less than those doing the equivalent job. There were also mixed views on whether there should be a minimum wage for under 16 year olds. Some agreed that a minimum wage for these workers would be an important mechanism to avoid exploitation of younger workers. Others were concerned that it would encourage youths to work when they should be focusing on school.
10. Alternatives to setting a minimum wage for under 16 year olds were to have guidelines for workers under 16 or have a maximum number of hours related to the type of work.
11. It was suggested that the training rate should be set at a level higher than the youth rate (e.g. 90% of the adult minimum) to provide incentives to train, rather than work a minimum wage job and not undergo training. Some suggested that government provide a subsidy to top up the training rate so that it is the same as the adult minimum wage.

### **National Association of Retail Grocers and Supermarkets of New Zealand (NARGON)**

12. NARGON supports keeping youth minimum wage rates as young workers require more training and supervision than older employees and have lower productivity. Training adds immeasurably to the future employability of young people but is costly for employers.
13. Extending the adult minimum wage to 18-19 year olds had a negative impact on them as supermarket owners were less likely to employ workers in this age band and more likely to employ someone who was 20 years old or over as they are more mature, productive, have a better work ethic and require less supervision.

14. Abolishing youth rates will have the same effect on 16-17 year olds for the same reason. Many young workers do not rely on the minimum wage as a long-term source of income and increased wages may signal to young people that further education and training is not warranted.

#### **New Zealand Association of Registered Hairdressers (NZARH)**

15. NZARH supports having a youth minimum wage. It believes that members may not hire 16-17 year olds if they are paying the same rate as for those aged 18 years and over. Its members would rather hire someone who has already got work and life experience. It believes that 80% of the adult minimum wage is appropriate for the youth minimum wage. The elimination of youth rates would be dramatic as margins are already very tight. NZARH also supports keeping the training rate as it currently is. Training rates provide an incentive to employers to hire trainees.

#### **New Zealand Chambers of Commerce**

16. The Chambers' overall position is to support the core principle that any wage needs to be fair and a reasonable reward for the tasks performed. That is, age should not of itself be a determining factor. The Chambers recognise that the differential between the adult and youth minimum wages is an incentive for employers to give young people a "foot in the door". Removing youth rates has the potential to significantly raise youth unemployment and may deter young people from pursuing education and training. Extending the youth rate to under 16 year olds may impact adversely on the availability of after-school work for them.
17. However, the Chambers also recognise that young employees on youth rates feel disadvantaged relative to higher paid, older co-workers, especially if their productivity is greater. The Chambers support removal of discrimination between young people and adults with respect to their minimum hourly earnings in situations of equal work and especially in full-time employment. The Chambers suggest an education programme aimed at encouraging employers to pay a fair and reasonable reward for tasks performed.

#### **New Zealand Council of Trade Unions (NZCTU)**

18. NZCTU recommends removing youth rates immediately and increasing training rates to 90% of the adult minimum wage. It also supports applying the minimum wage to under 16 year olds. The NZCTU has raised the issue of youth rates being illegal based on their interpretation of advice to the Ministry of Justice to the Attorney-General on the Minimum Wage (Abolition of Age Discrimination) Amendment Bill.

### **New Zealand Retailers Association**

19. The Retailers Association supports keeping the youth minimum wage rate. Its research shows that there is no evidence that 15 or 16 year olds are underpaid and information suggests that they are already paid the youth minimum rate. As a compromise it suggests introducing an experience-based rate for the first three months of employment for 16-17 years olds, as this is the period when they are least productive.

### **Small Business Advisory Group (SBAG)**

20. SBAG supports keeping the youth minimum wage and believes that 80% of the adult rate is too high. A lower rate for young people is justified because their productivity, experience, maturity, life skills and job specific skills are lower. It believes there would be negative impacts if there was a minimum wage for under 16 year olds.

### **Unite!**

21. Unite! supports the abolition of youth rates and extending them to under 16 year olds. It urges the government to abolish youth rates in this review. Youth rates are inequitable. Young workers that are promoted to positions as supervisors are paid less than those they are supervising.

### **Youth Union Movement of Aotearoa (YUM)**

22. YUM supports abolishing youth rates and extending the minimum wage to under 16 year olds. Eliminating youth rates will promote pay equity, remove the current discrimination and offer protection to young, vulnerable workers. YUM believes that all young people deserve to earn a liveable wage, even those who are in training. It notes many situations where training is used by employers to legitimise paying young people less than their co-workers by preventing the trainee gaining credits or prolonging the training period.

## **REGULATORY IMPACT STATEMENT**

### **Statement of the nature and magnitude of the problem and the need for government action**

Subsection 5(1) of the Minimum Wage Act 1983 states that "The Minister of Labour shall, in each year ending on the 31<sup>st</sup> day of December, review any minimum rate prescribed pursuant to section 4 of this Act". The current specified minimum rate for people aged 18 years and over (the adult rate) is \$10.25 an hour and for those aged 16 or 17 years (the youth rate) and trainees it is 80% of the adult rate, or \$8.20 an hour. These rates need to be reviewed by 31 December 2006.

Minimum wage rates provide a minimum acceptable standard for pay rates, and therefore are particularly relevant to low-paid workers.

Currently, 0.6% of all wage and salary workers aged 18-64 years are on the minimum wage of \$10.25, and 5.5% of all wage and salary workers aged 16-17 years are on the youth minimum wage of \$8.20. This equates to 13,000 workers who are paid the current minimum wage rate. Women, Maori and Pacific Island people, and young people are over-represented among those earning less than \$12.00 an hour, and would expect to benefit from increases in the minimum wage. Changes in the minimum wage particularly affect the service and sales, retail and hospitality, agricultural and health/community sectors, and small and medium enterprises.

The training minimum wage was introduced in July 2003 and allows for a lower minimum wage (at 80% of the adult rate) to be paid if an employee is undertaking training of at least 60 credits annually towards a qualification registered by the National Qualifications Framework.

Since 2003, the adult minimum wage rate has increased by either \$0.50 a year or, in 2006, by \$0.75 a year. These increases have slightly outpaced annual increases in the average wage, and a larger increase was chosen in 2006 to reflect the government's goal of moving to \$12.00 an hour by the end of 2008, if economic conditions permit.

The minimum wage was last increased on 27 March 2006. Since then, consumer prices have increased by 4.0% and average total hourly earnings have increased by 4.4% (for the year to June 2006) resulting in a decrease in the real value of the minimum wage. Benefit rates are indexed to the Consumer Price Index (and have therefore increased at that rate) so the incentive for some people to work may have reduced.

### **Statement of the public policy objective(s)**

The minimum wage is part of the government's general responsibility to ensure socially acceptable employment standards that are prescribed and enforceable. In addition, there are formal international commitments that establish an explicit obligation on the government to ensure an adequate minimum wage, including under ILO Convention 26 which obliges the government to create minimum wage fixing machinery where "no arrangements exist for the effective regulation of wages...and wages are exceptionally low", and recommends that minimum wages should be set according to the "general level of wages prevailing in the country".

The government's objectives for the minimum wage are:

- to ensure that wages paid are no lower than a socially acceptable minimum (fairness). Changes to reflect average wages or inflation are relevant for maintaining this objective.
- to offer wage protection to vulnerable workers so that workers are paid wages that reflect their worth or productivity (protection).
- to ensure that incomes of people on low incomes do not deteriorate relative to those of other workers (income distribution).
- to increase the incentives to work for people considering work who are not currently in paid employment (work incentives).

**Statement of feasible options (regulatory and/or non-regulatory) that may constitute viable means for achieving the desired objectives(s) AND Statement of the net benefit of the proposal, including the total regulatory costs (administrative, compliance and economic costs) and benefits (including non-quantifiable benefits) of the proposal, and other feasible options.**

*Options for the 2007 adjustment to minimum wage rates*

Five options for the adult minimum wage have been considered. Tables 1 and 2 below indicate total numbers of adults and youth affected by each of the minimum wage options. Minimum wage changes would come into effect on 1 April 2007 to allow employers time to adjust to the change, and to coincide with the implementation date of four weeks' annual holiday in order to reduce compliance costs.

*Table 1: Impact of Adult (18 – 64 years) Minimum Wage Options*

<b>Option for 2007</b>	<b>Hourly rate</b>	<b>Weekly rate (40 hour week)</b>	<b>Cumulative no. of people who would receive a wage rise and percentage of employees affected</b>
1	\$10.25	\$410	0
2	\$10.70 or \$10.75 or \$10.80	\$428 or \$430 or \$432	45,100 (2.8%)
3A	\$11.00	\$440	63,200 (4.0%)
3B	\$11.25	\$450	109,900 (6.9%)
3C	\$12.00	\$480	166,500 (10.4%)

*Table 2: Impact of Youth (16 and 17 years) Minimum Wage Options*

<b>Option for 2007</b>	<b>Hourly rate</b>	<b>Weekly rate (40 week) hour</b>	<b>Cumulative no. of people who would receive a wage rise and percentage of youth workforce</b>
1	\$8.20	\$328	0
2	\$8.56 or \$8.60 or \$8.64	\$342.40 or \$344.00 or \$345.60	7,600 (13.1%)
3A	\$8.80	\$352	9,000 (15.4%)
3B	\$9.00	\$360	9,200 (15.8%)
3C	\$9.60	\$384	16,700 (28.8%)

**Status quo – Option 1: leaving the minimum wage unchanged at \$10.25 (\$8.20 for youth and trainees)**

Leaving the minimum wage unchanged would not require any adjustment by employers. However, it would mean that the minimum wage would decrease in real terms, and relative to average wages. There would also be a reduction in the margin between benefit rates (which increase by the rate of inflation each April) and the minimum wage, which may reduce incentives for some people to work. Using the unemployment benefit for a single adult aged 18 – 24 years with no supplementary assistance included as a benchmark (\$170.49 a week), the current minimum wage is 140.5% higher than this unemployment benefit. If the minimum wage was increased to \$10.70 an hour, it would be 151.0% higher; an increase to \$11.00 an hour would be 158.1% higher; an increase to \$11.25 an hour would be 163.9% higher; and an increase in the minimum wage to \$12.00 an hour would be 181.5% higher than this unemployment benefit.

Retaining the existing minimum wage (\$10.25 an hour) will erode the real value of these wages, wage inequity would also be likely to increase, and it would not further contribute to the government's objectives for the minimum wage.

**Increasing the minimum wage to maintain relativity with average wages and the Consumer Price Index (CPI) – Option 2: \$10.70 (\$8.56 for youth and trainees)**

A small increase equivalent to the increase in average wages and in line with the CPI would be consistent with the Government's concern that the minimum wage should not lose its value over time. It would preserve the real value of the minimum wage and can be made with confidence in the current economic and labour market conditions. It would also contribute to the fairness and income protection objectives of the minimum wage. An increase of at least the rate of inflation would also preserve the margin between benefit rates and the minimum wage (relevant to the work incentives objective).

It would also be possible for this option to be set at \$10.80 an hour to reflect the increase in the Labour Cost Index, which increased 5.5% for the June 2006 year. Similarly, it would be possible for this option to be \$10.75, which is a \$0.50 increase.

Increasing the minimum wage to maintain these relativities would mean that a larger increase would be required in 2008 to reach the government's goal of \$12.00 an hour by the end of 2008 (adult rate), if economic conditions permit.

**Increasing the minimum wage above the rate needed to maintain relativity with average wages and the CPI – Option 3A (\$11.00), Preferred Option – 3B (\$11.25), or 3C (\$12.00).**

Those on low incomes could expect a real increase in their earnings as a result of an increase in the minimum wage above \$10.70 an hour. This could help to narrow the earnings distribution, although it could also create flow on effects for firms as employees further up the earnings distribution seek wage increases to preserve relativities. A larger increase in 2007 would require a smaller increase in 2008 to reach the government's goal of \$12.00 an hour (adult rate) by the end of 2008, if economic conditions permit.

A rate of \$11.00 an hour would be consistent with the \$0.75 increase in 2006. Options 3A–3C would signal a stronger message in 2007 about the commitment to reach the government's goal.

The Department of Labour considers that, given current economic and labour market conditions, an increase in the minimum wage up to and including \$11.25 could be made with confidence, and could be made to reflect a stronger view of the contribution of the minimum wage to its objectives. An increase to \$12.00 an hour would have a relatively greater impact on the economy-wide wage bill and inflation, and could potentially constrain employment growth to a larger extent, especially if there is a downturn in the economy or a further softening in economic conditions.

A larger increase in the minimum wage could also lead to business seeking to improve the productivity of lower paid workers. Evidence from the UK Low Pay Commission suggests that a significant proportion of businesses adjusted to the minimum wage by seeking to increase the productivity of their workers. Recent New Zealand qualitative research shows that firms respond to increases in the minimum wage by a variety of strategies such as compression of the wage scale, increasing work intensity (e.g. reducing paid hours per employee, tightening the weekly rosters and by not replacing workers who resign) or by tightening employment policy. Firms surveyed in the research indicated longer term responses could include raising labour productivity, reducing other costs and possible business retrenchment or closure. Some firms also raised prices in response to their increased wage costs.

However, the following table shows the potential impact of the minimum wage options on inflation and employment growth. The Department considers that the potential level of constraint on employment growth, if it occurs at all, is not significant compared to the reasonably strong projected job growth and that the risk of significant negative impacts for an increase in the minimum wage up to and including \$11.25 an hour is low.

*Table 3: Potential impact of minimum wage options on inflation and employment growth*

<b>Option</b>	<b>Increase in inflation</b>	<b>Projected job growth, reflecting the potential level of constraint on employment</b>	<b>Potential level of constraint on employment growth*</b>
1	No change	21,400	No impact
2	0.02%	21,400	No impact
3A	0.04%	21,000 – 19,700	400 – 1,700
3B	0.06%	20,700 – 18,300	700 – 3,100
3C	0.22%	19,700 – 14,100	1,700 – 7,300

\* This has been calculated using a set of hypothetical employment elasticities that are broadly derived from econometric analysis conducted by the Department and elsewhere.

### **Youth and training minimum wage rates for 2007**

The recommended option for 2007 is that the youth and training minimum wage rates retain their current relativity with the adult rate (at 80% of the adult rate), pending further policy advice which will be provided to the Minister of Labour in February 2007 in the context of the Minimum Wage (Abolition of Age Discrimination) Amendment Bill.

### **Overall net impacts of an increase in the minimum wage**

#### *Government*

The impact on costs to government is unclear, but likely to be small. The overall fiscal impact of increases in adult and youth minimum wages is unclear, but is likely to be small as a relatively small proportion of the workforce earn minimum wages. There are a number of state sector employees (and contractors) that earn wages of \$12.00 an hour or less, particularly in the public health and compulsory education sectors. Future increases in the minimum wage are therefore likely to have direct (and possibly also indirect or flow-on) costs for some state sector employers. State sector employees may bargain with their employers to retain their relativities. These costs and the likelihood that organisations will seek additional funding from the government to compensate for them, will be higher for larger movements towards the goal of \$12.00 an hour.

There may be savings to government through abated income assistance as a result of increased earned income for people in receipt of such assistance (including Working for Families assistance). However, despite abated income assistance, people will still be better off as a result of the increase to their wages. A wage increase may result in increased consumer demand which could have a positive impact on economic growth and may partly mitigate negative economic growth implications of a higher minimum wage.

#### *Waged workers*

Any increase in the minimum wage will mean that some low-wage workers will receive wage increases ensuring that their earnings do not deteriorate relative to other workers. There may also be flow-on effects to the wages of some workers

above the minimum wage, as they seek to maintain wage relativities. If the margin between wages and benefit rates is increased through a minimum wage increase, the incentive to work relative to remaining on a benefit is also increased.

The benefits of minimum wage increases are likely to be felt most strongly among women, younger workers (particularly those aged between 16 and 24), Maori, Pacific peoples, other non-European/Pakeha groups, people without post-school qualifications, part-time workers, people with disabilities, recent migrants, the low skilled and people with non-English speaking backgrounds. These groups would, however, also be more likely to experience any negative impacts that could result from a minimum wage increase, particularly if there was a big increase (for example, reduced hours worked, or substitution of some groups of workers by others).

Fifty percent of those earning less than \$11.00 an hour work part-time. Because part-time workers work fewer hours, any increase in their weekly income as a result of a rise in the minimum wage will reflect their part-time hours, and will reduce the absolute increase in income arising from minimum wage increases, compared to full-time workers.

For some groups of women, an increase in the minimum wage is the only direct lever the government has to ensure an adequate earned income (they may be non-unionised and/or have weak bargaining power). The objectives sought through the minimum wage of improving levels of fairness and protection are particularly relevant for these groups of more vulnerable women.

Of those receiving the youth minimum wage, the majority are likely to be young people who are working while still at school and in part-time jobs (85% of 16 and 17 year olds are employed in part-time jobs, 88% are studying and 72% are still at school). These workers are likely to be in the retail sector (63% of 16 and 17 year olds in minimum wage jobs are employed in the retail industry). For youth, the increase in weekly income from an increase in the minimum wage is likely to be small, because the majority of young people work short hours.

### *Employers*

Unless they are readily able to absorb the increased labour costs associated with an increased minimum wage, businesses will need to adjust to a minimum wage increase in some other way. The larger the increase in the minimum wage, the greater will be the adjustment needed. Absorption of increased labour costs may result in reduced company profits and reduced share values for shareholders. Those employees who would benefit most from an increase in the minimum wage would also be the first to be affected by any costs, for example, through shortened working hours, the substitution of higher for lower skilled workers, delayed employment decisions, reduced non-wage terms and conditions, increased pressure on worker productivity, or reduced training.

Sectors most likely to be affected are the retail, hospitality, health/community, agriculture/forestry/fishing/mining, manufacturing and property/business sectors. Small firms are also more likely to be affected than larger firms. If the minimum wage was increased to \$11.00 an hour, about 22,200 workers in the retail sector would be affected, or 10.9% of workers in that sector. In the hospitality sector about 9,800 workers (7.0%) would be affected, in the health/community sector about 10,000 workers (5.8%) would be affected, and in the agriculture sector about 4,000 workers (5.4%) would be affected. In the manufacturing sector about 7,200 workers (3.0%) would be affected, and in the property/business

sector about 4,500 workers (2.6%) would be affected. As there will be an increase in the wage bill for affected sectors and firms, there will also be an increase in the ACC levy payable as employers pay a levy on average 1.21% per annum of total payroll to ACC.

A larger increase in the minimum wage could also lead to business seeking to improve the productivity of lower paid workers. Evidence from the UK Low Pay Commission suggests that a significant proportion of businesses adjusted to the minimum wage by seeking to increase the productivity of their workers. Recent New Zealand qualitative research shows that firms respond to increases in the minimum wage by a variety of strategies, one longer term response indicated by firms surveyed in the research was to raise labour productivity.

### *Economy/Society*

Benefit payments may increase for people who have their hours of work reduced, but for those who receive wage increases there may be some offsetting benefit abatement. There will also be a small increase in tax paid by people who receive pay rises. Overall, these factors mean the direct fiscal impacts are likely to be small. However, detailed estimates of these costs and off-setting benefits have not been prepared.

If wage increases are contained to those moving up to the new minimum wage, the impact on prices is likely to be small. Businesses who are affected by minimum wage increases have suggested that they may adjust by passing on the cost of wage rises to customers by increasing prices. An examination of the hourly wage distributions for 2005 - 2006 suggested that, at the aggregate level, workers who are paid slightly more than the minimum wage have retained their wage relativities. If workers earning above the minimum wage also receive a wage increase, in line with the increase in the minimum wage, there may be more of an impact on prices. However, not all businesses are able to raise prices in response to minimum wage increases, and businesses have a variety of responses available to them.

An increase in the minimum wage may increase demand and put pressure on areas of low-cost housing, reducing the affordability of housing for low-income workers.

Increasing the minimum wage can make a contribution to reducing the gender pay gap. For example, an increase in the minimum wage from \$10.25 to \$12.00 an hour will improve the gender pay ratio by three tenths of a percentage point (0.3) to 87.3%.

Compliance costs arising out of any increase in the minimum wage are detailed in the Business Compliance Cost Statement set out below.

### **Statement of consultation undertaken**

Submissions for the 2006 Minimum Wage Review were received from a number of organisations reflecting women's interests (the National Advisory Council on the Employment of Women) and worker (New Zealand Council of Trade Unions, Unite! and Youth Union Movement) and business interests (Business New Zealand, the New Zealand Retailers Association, the Federated Farmers of New Zealand, the New Zealand Association of Retail Grocers and Supermarkets, the New Zealand Association of Registered Hairdressers, the New Zealand Chambers of Commerce and the Small Business Advisory Group). In addition, the Department of Labour met separately with the New Zealand Council of Trade

Unions, Business New Zealand, the New Zealand Chambers of Commerce and the Small Business Advisory Group to discuss some of the key issues relating to their submissions.

Submissions representing employer interests, emphasised the costs of wage increases (refer above) and sought no or small increases in minimum wages. Employee representatives recommended large increases in the minimum wage, emphasising the benefits to low-wage workers. A submission was also received from the Mayors Taskforce for Jobs which indicated it would like to see the implementation of the \$12.00 an hour goal before 2008, if possible.

The following government organisations have been consulted on the 2006 Minimum Wage Review: The Treasury; Ministries of Education, Women's Affairs, Pacific Island Affairs, Health, Social Development, Economic Development, and Youth Development; Te Puni Kokiri; Tertiary Education Commission; and the Office for Disability Issues. The Department of the Prime Minister and Cabinet was provided with a copy of the report.

The Ministry of Social Development supports Options 2 (\$10.70), 3A (\$11.00) or 3B (\$11.25), as they preserve or increase the margin between benefit levels and minimum wages, thereby improving incentives for people to work. The Ministries of Social Development and Youth Development consider that an increase greater than \$1.00 may negatively impact on employment growth and inflation. The Ministry of Pacific Island Affairs supports Option 2 (\$10.70). The Ministry of Womens Affairs and Te Puni Kokiri support an increase in the minimum wage above the level of inflation (i.e. higher than Option 2: \$10.70). The Treasury supports raising the minimum wage in 2007 as a path to the Government's agreed increase in the minimum wage to \$12.00 an hour by the end of 2008 and supports Option 3A (\$11.00). The Office for Disability Issues supports Option 3B.

### **Business compliance cost statement**

This statement is based on the assumption that the minimum wage will be increased – there will be no incremental compliance costs if the minimum wage is left unchanged.

Changes to minimum wages require firms that currently pay less than the new minimum wage to their employees to raise those wages from the time that the new minimum wage rates come into force. This adjustment will require minor changes to data in payroll systems, but otherwise the regulatory requirements remain unaffected by changing minimum wage rates. There may be compliance costs for employers adjusting to an increased minimum wage and these adjustments are likely to disproportionately affect small businesses because small businesses employ proportionally large numbers of minimum wage earners and tend to offer a narrow wage band (so flow on effects may occur). Compliance costs may include managerial time to advise affected employees of the new minimum wage rate, to obtain any required authorisation to make the changes to the payroll system, and to agree to the variation of affected employees' pay rates in their employment agreements; and the time taken by payroll administrators to implement the change on their payroll system.

Employers whose workers are paid less than the new minimum wage rates will be affected. Information from the July 2005 to June 2006 Statistics New Zealand Household Labour Force Survey Income Supplement suggests that these employers are most likely to be in the retail, hospitality, health/community, or agriculture/forestry/fishing/mining sectors. Employers in the manufacturing and property/business sectors will also be affected.

The Minister of Labour will make a press statement to outline the changes to minimum wage rates. Changes would not come into effect until 1 April 2007 to allow employers time to adjust to the change, and to coincide with the implementation date of four weeks' annual holiday and the Small Business Advisory Group's recommendation for common implementation dates for regulatory changes in order to reduce compliance costs.

## Consultation on Cabinet and Cabinet Committee Submissions

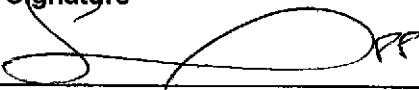
### Certification by Department

**Departments consulted:** The attached submission has implications for the following departments whose views have been sought and are accurately reflected in the submission:

The Treasury, Ministries of Education, Women's Affairs, Pacific Island Affairs, Health, Social Development, Economic Development, and Youth Development, Te Puni Kokiri, Tertiary Education Commission, and the Office for Disability Issues have been consulted on this paper. A copy of this report has also been provided to the Department of the Prime Minister and Cabinet.


**Others consulted:** The following non-government organizations were also consulted and made submissions on the 2006 review of the minimum wage: Business New Zealand, Federated Farmers of New Zealand, the Mayors Taskforce for Jobs, the National Advisory Council on the Employment of Women, the National Association of Retail Grocers and Supermarkets of New Zealand, the New Zealand Association of Registered Hairdressers, the New Zealand Chambers of Commerce (on behalf of the Auckland Regional Chamber of Commerce, the Wellington Regional Chamber of Commerce, Canterbury Employers Chamber of Commerce and Otago Chamber of Commerce), the New Zealand Council of Trade Unions, the New Zealand Retailers Association, the Small Business Advisory Group, Unite! and the Youth Union Movement of Aotearoa. Department officials also consulted with the Ministry of Pacific Island Affairs' Community Reference Group in Auckland to ensure the minimum wage review reflects a Pacific Island perspective.

In addition, officials met with the New Zealand Council of Trade Unions, Business New Zealand, the New Zealand Chambers of Commerce and the Small Business Advisory Group to discuss their submissions.

<b>Signature</b> 	<b>Name, Title, Department</b> Alison Dalziel, Acting Group Manager - Workplace Policy, Department of Labour	<b>Date</b> 6 December 2006
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### Certification by Minister

Ministers should be prepared to update and amplify the advice below when the submission is discussed at Cabinet/Cabinet committee. The attached submission:

<b>Consultation at Ministerial level</b>	<input checked="" type="checkbox"/> did not need consultation with other Ministers <input type="checkbox"/> has been the subject of consultation with the Minister of Finance <i>[required for all submissions seeking new funding]</i> <input type="checkbox"/> has been the subject of consultation with the following Minister(s) ..... .....	
<b>Consultation with Government MPs</b>	<input checked="" type="checkbox"/> does not need consultation with the government caucuses <input type="checkbox"/> has been or will be <i>[specify which]</i> the subject of consultation with the following government caucuses: <input type="checkbox"/> Labour caucus <input type="checkbox"/> Progressive Coalition caucus	
<b>Consultation at Parliamentary level</b>	<input checked="" type="checkbox"/> does not need consultation at parliamentary level <input type="checkbox"/> has been or will be <i>[specify which]</i> the subject of consultation with the following other parties represented in Parliament: .....	
<b>Signature</b> 	<b>Portfolio</b> Minister of Labour	<b>Date</b> 6, 12, 06

Most submissions to Cabinet and Cabinet committees are relevant to departments other than the initiating department. It is important for the quality of decision making that all interested departments are involved in developing a submission. Departments should consider the schedule of interests of all departments in chapter 11 of the Cabinet Office *Step by Step Guide* for every submission for which they are responsible. Particular attention should be paid to the need to consult the departments listed below, which have a broad "horizontal responsibility".

The Cabinet Office will reject submissions if the necessary consultation does not appear to have taken place

Department	Issues on which they must be consulted
Crown Law Office	Proposals having legal implications for the Crown
Ministry of Consumer Affairs	All policy proposals likely to affect the economic welfare of consumers
Ministry of Foreign Affairs and Trade	All proposals having implications for New Zealand's external relations, trade policy and international legal obligations
Ministry for the Environment	All proposals having significant environmental implications
Ministry of Maori Development (Te Puni Kokiri)	All proposals with implications for Maori, as individuals, communities or tribal groupings, with particular focus on reducing inequalities, and Treaty of Waitangi issues
Ministry of Pacific Island Affairs	All proposals with implications for Pacific peoples as individuals and communities with particular focus on reducing inequalities
Parliamentary Counsel Office	Proposals for legislation or amendments to legislation
Department of the Prime Minister & Cabinet	All policy proposals which are likely to have implications for the government as a whole, or for the coordination of the activities of two or more departments
Ministry of Research, Science and Technology	All proposals having implications for science policy or funding, or which might be significantly influenced by scientific or technological input
Office for Senior Citizens, Ministry of Social Development	All matters relating to the well-being of older people
State Services Commission	All proposals with an impact on organisational structures, Chief Executive accountability or departmental performance specification and industrial relations in the state services
The Treasury	All proposals having economic, financial or fiscal (expenditure or revenue) implications
Ministry of Women's Affairs	All proposals that relate to the economic and social status of women, especially Maori women
Ministry of Youth Affairs	All proposals dealing with issues of concern to 12-25 year olds