



Cabinet Policy Committee

POL Min (06) 28/21

Copy No:

Minute of Decision

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Minimum Wage Review 2006

On 13 December 2006, the Cabinet Policy Committee (POL):

Options for the minimum wage

- 1 **noted** 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 Consumer Price Index for the June 2006 year – New Zealand Retailers Association recommends an increase in line with the Consumer Price Index);
 - 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 **noted** 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 **noted** 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 **noted** 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 **noted** 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 **noted** 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 **noted** 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 **agreed** 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 **agreed** 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 **agreed** 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 **agreed** that any increase in the minimum wage will come into effect on 1 April 2007;

Next steps

- 12 **invited** the Minister of Labour to issue drafting instructions to the Parliamentary Counsel Office to implement the above decisions;
- 13 **noted** that the Minister of Labour intends to make a media statement on the decisions about minimum wages following Cabinet confirmation, and that the paper under CBC (06) 352 and the officials' report will be made publicly available through the Department of Labour's website;

The 2007 minimum wage review

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

Gerrard Carter
Secretary

Reference: CBC (06) 352

Copies to: (see over)

Present:

Rt Hon Helen Clark (Chair)
Hon Dr Michael Cullen
Hon Jim Anderton
Hon Annette King
Hon Trevor Mallard
Hon Pete Hodgson
Hon Parekura Horomia
Hon Mark Burton
Hon Ruth Dyson
Hon Chris Carter
Hon Rick Barker
Hon Damien O'Connor
Hon Nanaia Mahuta
Hon Judith Tizard
Rt Hon Winston Peters

Officials present from:

Department of the Prime Minister and Cabinet