

TAG 4

ACTU Costing

Costing a flat \$25 increase in all award rates

(Private Sector Award Only)

Weighted increase for Private Sector Award Only Employees

	Adults				Juniors Total
	Full-time	Part-time			
	Permanent	Non-Permanent	Permanent	Non-Permanent	
Percentage of Private Sector Award Dependent Employees	30.3	5.6	15.2	32.7	16.2
Weighting	1.0	1.2	0.5	0.6	0.5
Weighted Increase	25	30	12.5	15	12.5
					18,085

Calculating the Addition to Total Ordinary Time Earnings

% of Total Employees	Weighted Increase	Total AWOTE	Maximum Addition to Total Ordinary Time Earnings (%)	Estimated Increase in Ordinary Time Earnings (%)
21.14	18,085	683.90	0.56	0.45

The impact of the 2001 Living Wage Increase

Weighted increase for Private Sector Award Only Employees

	Adults				Juniors	Total
	Full-time		Part-time			
	Permanent	Non-Permanent	Permanent	Non-Permanent		
Percentage of Private Sector Award Dependent Employees	30.3	5.6	15.2	32.7	16.2	100.0
Weighting	1.0	1.2	0.5	0.6	0.5	
Weighted Increase	14.68	17.616	7.34	8.808	7.34	10.62

Calculating the Addition to Total Ordinary Time Earnings

Percentage of Total Workforce	Weighted Increase	Total AWOTE	Maximum Addition to Total Ordinary Time Earnings (%)	Estimated Increase in Ordinary Time Earnings (%)
21.14	10.62	653.90	0.34	0.27

THE ECONOMIC IMPACT OF A \$25 INCREASE

(Private Sector Award Only)

Addition to Total Ordinary Time Earnings (%)	Impact of 2001 Living Wage Case (%)	Net Impact on Total Ordinary Time Earnings (%)	CPI Effect (%)
0.45	0.27	0.17	0.09

Impact of Various Award Rate Increases on Economy Wide Earnings
 (Private Sector Award Only)

Wage Increase	Estimated Addition to Economy Wide Earnings	Maximum Addition to Economy Wide Earnings	Estimated Net Impact	Maximum Net Impact
10	0.18	0.22	-0.10	-0.12
11	0.20	0.25	-0.08	-0.10
12	0.21	0.27	-0.06	-0.07
13	0.23	0.29	-0.04	-0.05
14	0.25	0.31	-0.02	-0.03
15	0.27	0.34	-0.01	-0.01
16	0.29	0.36	0.01	0.01
17	0.30	0.38	0.03	0.04
18	0.32	0.40	0.05	0.06
19	0.34	0.42	0.07	0.08
20	0.36	0.45	0.08	0.10
21	0.38	0.47	0.10	0.13
22	0.39	0.49	0.12	0.15
23	0.41	0.51	0.14	0.17
24	0.43	0.54	0.15	0.19
25	0.45	0.56	0.17	0.22

Costing a flat \$25 increase in all award rates

(Award Only Employees)

Weighted increase for Award Only Employees

	Adults				Juniors	Total
	Full-time		Part-time			
	Permanent	Non-Permanent	Permanent	Non-Permanent		
Percentage of Private Sector Award Dependent Employees	47.4	5.4	13.0	23.5	10.8	100.0
Weighting	1.0	1.2	0.5	0.6	0.5	
Weighted Increase	25	30	12.5	15	12.5	19.95

Calculating the Addition to Total Ordinary Time Earnings

Percentage of Total Workforce	Weighted Increase	Total AWOTE	Maximum Addition to Total Ordinary Time Earnings (%)	Estimated Increase in Ordinary Time Earnings (%)
23.2	19.95	683.90	0.68	0.49

The impact of the 2001 Living Wage Increase

Weighted increase for Award Only Employees

	Adults				Juniors	Total
	Full-time		Part-time			
	Permanent	Non-Permanent	Permanent	Non-Permanent		
Percentage of Private Sector Award Dependent Employees	47.4	5.4	13.0	23.5	10.8	100.0
Weighting	1.0	1.2	0.5	0.6	0.5	
Weighted Increase	14.84	17.808	7.42	8.904	7.42	11.84

Calculating the Addition to Total Ordinary Time Earnings

Percentage of Total Workforce	Weighted Increase	Total AWOTE	Maximum Addition to Total Ordinary Time Earnings (%)	Estimated Increase in Ordinary Time Earnings (%)
23.2	11.84	653.90	0.42	0.31

THE ECONOMIC IMPACT OF A \$25 INCREASE
 (Award Only Employees)

Addition to Total Ordinary Time Earnings (%)	Impact of 2001 Living Wage Case (%)	Net Impact on Total Ordinary Time Earnings (%)	CPI Effect (%)
0.49	0.31	0.19	0.10

Impact of Various Award Rate Increases on Economy Wide Earnings
 (Award Only Employees)

Wage Increase	Estimated Addition to Economy Wide Earnings	Maximum Addition to Economy Wide Earnings	Estimated Net Impact	Maximum Net Impact
10	0.20	0.27	-0.11	-0.15
11	0.22	0.30	-0.09	-0.12
12	0.24	0.32	-0.07	-0.10
13	0.26	0.35	-0.05	-0.07
14	0.28	0.38	-0.03	-0.04
15	0.30	0.41	-0.01	-0.01
16	0.32	0.43	0.01	0.01
17	0.34	0.46	0.03	0.04
18	0.35	0.49	0.05	0.07
19	0.37	0.51	0.07	0.09
20	0.39	0.54	0.09	0.12
21	0.41	0.57	0.11	0.15
22	0.43	0.60	0.13	0.18
23	0.45	0.62	0.15	0.20
24	0.47	0.65	0.17	0.23
25	0.49	0.68	0.19	0.26

Converting the 2001 decision to a flat increase

Private Sector Award Only	Proportion
\$13	0.42
\$15	0.32
\$17	0.26
	14.68

Award Only	Proportion
\$13	0.39
\$15	0.30
\$17	0.31
	14.84

Notes

We convert last year's safety net decision to an average flat dollar increase by weighting the various increases awarded by the proportion of employees who received them.

The proportions of employees are derived from unpublished data from ABS Cat. 6306.0 May 2000.

We received percentile data for non-managerial adult AHOTE for the relevant cohort which has been adjusted to take account of an assumed average casual loading of 20%. Our use of adult data will result in a slight overstatement of the cost of last year's decision but sensitivity analysis suggests our results will not be greatly affected.

We converted the 2001 decision cut-offs (\$490 and \$590) back to 2000 figures by subtracting \$15 and then convert to hourly rates by dividing by 38.

Costing Methodology

1. We cost a \$25 increase in all award rates using unpublished data from ABS Cat. 6306.0 Survey of Employee Earnings and Hours May 2000, ("May 2000 EEH").
2. The first step is to weight the flat dollar increase (\$25) for full-time, part-time, permanent, casual, adult and junior status. This is done on the following assumptions:
 - a full-time permanent adult receives the full increase;
 - a full-time casual adult receives a 20% loading (ie a 1.2 weighting);
 - a part-time permanent adult works on average 18.7 ordinary hours per week (ABS Cat 6306.0 p.23) (ie a 0.5 weighting);
 - a part-time casual adult receives a 20% loading and works on average 18.7 hours per week (ie a weighting of 0.6);
 - juniors receive 0.65% of adult earnings on average with casual and part-time juniors weighted in the same way as adults (ie an overall weighting for juniors of 0.5).
3. The weighted dollar increase is then multiplied by the relevant proportion of employees and divided by estimated AWOTE for May 2002 to give a maximum addition to ordinary time earnings. The mathematical basis for this is as follows:

Our aim is to measure the total increase in ordinary time earnings for all employees attributable to the proposed increase in award rates.

We define the following key terms:

$W =$ total weekly ordinary time earnings for all employees

$\Delta W =$ change in weekly ordinary time earnings for all employees as a result of the proposed increase

$N =$ total no. of all employees

$N_A =$ total no. of private sector award only employees

$AWOTE =$ average weekly ordinary time earnings for all employees

$\alpha =$ proportion increase in total ordinary time earnings as a result of the proposed increase.

For each cohort of award only employees we define:

$W_i =$ total weekly ordinary time earnings for all employees in the cohort

$\Delta W_i =$ change in weekly ordinary time earnings for all employees in the cohort as a result of the proposed increase

$N_i =$ total no. of employees in the cohort

$w_i =$ flat increase in ordinary time earnings for each cohort

From the above we note the following relationships:

$N_A/N =$ the number of private sector award only employees as a proportion of all employees

$N_i/N_A =$ the number employees in a particular cohort as a proportion of all private sector award only employees

$$AWOTE = W/N \Rightarrow N \times AWOTE = W$$

$$\Delta W_i = w_i \times N_i$$

$$\Delta W = \sum \Delta W_i$$

We calculate the proportionate increase in ordinary time earnings using the following formula:

$$\sum [w_i \times (N_i/N_A)] \times N_A/N \times 1/AWOTE$$

$$= \sum [(w_i \times N_i) / (N \times AWOTE)]$$

$$= \sum [\Delta W_i / W]$$

$$= \Delta W/W$$

$$= \alpha$$

4. We calculate our costing as an addition to AWOTE growth. Our calculations are not affected by compositional change because for the purposes of the calculation the composition of the workforce is held constant.
5. AWOTE for May 2002 is estimated by taking AWOTE for all employees from the May 2000 survey (\$625.10) and assuming 4.6% per annum growth. NB ABS figures establish growth in trend all employees total earnings of 4.6% in the year to May 2001 and 4.6% in the year to August 2001 – see *Average Weekly Earnings*, August 2001, ABS Cat 6301.0, trend AENA to September 2001 was 4.5%. Because we are calculating an addition to the total wages bill it is appropriate to adjust by an all employee wages bill measure rather than the narrower Wage Cost Index.
6. We adjust the maximum addition to ordinary time earnings to take account of the fact that survey evidence suggests that not all award only employees receive safety net adjustments. The Award and Agreement Coverage survey relied on by the Commonwealth in the 2000 Living Wage case provides figures regarding flow of safety net increases. Table 5.8 in the JCG 1999-2000 submission shows 16% of the total workforce received safety net increases. This figure includes non-award only employees who were recorded as having received safety net increases. To provide an indicative figure for safety net flow we assume all people who received a safety net increase were private sector award only and adjust the 16% figure upwards for the fact that the AACS found 22% of employees were award dependent whereas the ABS EEH May survey finds 23.2%. This gives a notional figure of 16.9% of employees who receive a safety net increase.
7. We cost on the assumption that the proposed increase has no impact on the public sector. This assumption is valid given:
 - the very limited levels of award dependency in the public sector (9.8%);
 - the fact no significant proportion of those who are award dependent would receive a \$25 safety net adjustment because of absorption into residual amounts, s.170MX awards and the like; and
8. Using the same basic methodology we cost the impact of the May 2001 Living Wage Case increase. We first convert the various dollar amounts awarded in last year's decision to a flat dollar increase. We also adjust AWOTE for one year of growth (at 4.6%) only. This allows us to calculate the net rise in AWOTE as a result of the ACTU claim.
9. The net CPI impact is calculated by adjusting the net addition to AWOTE by the wage share of total factor income 54.7% - see ABS Cat No 5206.0.