

Information Note—Method for adjusting expense-related allowances for the Annual Wage Review 2019–20



FairWork
Commission

This information note outlines the method of adjustment and calculation of the expense-related allowances in modern awards for the Annual Wage Review 2019–20. It sets out the latest quarter of the Consumer Price Index (CPI) that will be used to adjust the expense-related allowances of the Group 2 and Group 3 Awards before their operative date, which will be the September quarter 2020 and the December quarter 2020, respectively.

The timing of the Australian Bureau of Statistics (ABS) CPI releases means that the draft expense determinations will have to be published a few days before their commencement date. The Commission acknowledges that the opportunity to provide feedback on the determinations will be shorter than it has been in other years.

This paper also notes that referring to different CPI quarters may lead to differences between award groups for similar types of expense-related allowances previously set at a common rate, such as the vehicle and meal allowances. Any anomalies that arise can be addressed in the next annual wage review.

Background

In the Annual Wage Review 2019–20 decision ([\[2020\] FWCFB 3500](#)), the Expert Panel decided to increase modern award minimum wages by 1.75 per cent, but determined that different operative dates would apply to 3 groups of awards as follows:

- Group 1 Awards – 1 July 2020
- Group 2 Awards – 1 November 2020
- Group 3 Awards – 1 February 2021

The wage determinations giving effect to the adjustment of modern award minimum wages (including wage-related allowances) were published for all industry and occupational modern awards before 1 July as required under s.292(1) of the *Fair Work Act 2009* (Cth). There is no similar requirement for the publication of expense-related allowances.

Draft expense determinations for the Group 1 Awards were published for comment on 19 June 2020 followed by final determinations on 26 June 2020.¹ As noted on the Commission’s [website](#), the expense determinations for the Group 2 and Group 3 Awards will be published closer to their respective date of operation.

¹ This includes the expense determination for the *Pastoral Award 2010*, which is a Group 2 Award. This was published because some of the wage rates are the sum of one or more expense-related allowances. Since a variation determination varying modern award minimum wages must be published by 1 July under s.292(1), the corresponding expense determination was also published based on the March quarter 2020. However, the expense-related allowances of this award are intended to be recalculated on a later quarter closer to its operative date.

Method for adjusting expense-related allowances

Section 194 of the *Fair Work Act 2009* (Cth) provides for the automatic variation of allowances to coincide with a variation in modern award wages:

‘If a modern award includes allowances that the FWC considers are of a kind that should be varied when wage rates in the award are varied, the award must include terms providing for the automatic variation of those allowances when wage rates in the award are varied.’²

Consistent with s.194, the method of adjustment of expense-related allowances is provided for in a standard clause incorporated in most modern awards.³ The following standard clause from the *Manufacturing and Associated Industries and Occupations Award 2020* is a typical example:

D.2.2 Adjustment of expense related allowances

- (a) At the time of any adjustment to the standard rate, each expense related allowance must be increased by the relevant adjustment factor. The relevant adjustment factor for this purpose is the percentage movement in the applicable index figure most recently published by the Australian Bureau of Statistics since the allowance was last adjusted.
- (b) The applicable index figure is the index figure published by the Australian Bureau of Statistics for the Eight Capitals Consumer Price Index (Cat No. 6401.0), as follows:

Allowance	Applicable Consumer Price Index Figure
Carbon black overall allowance	Clothing and footwear group
Meal allowance	Take away and fast foods sub-group
Vehicle allowance	Private motoring sub-group
Tool allowance	Tools and equipment for house and garden component of the household appliances, utensils and tools sub-group

A [Statement](#) issued by the President of Fair Work Australia in May 2010 formally outlined the process for adjusting expense-related allowances in modern awards for the Annual Wage Review 2009–10, referring to the standard clause above.⁴ It also provided that draft variations would be published in advance for the parties to consider, and that any substantial objections could be determined prior to 1 July.⁵ Subsequent annual wage reviews have followed the same process to date.

² *Fair Work Act 2009* (Cth), s 149.

³ Some of the enterprise and State reference public sector modern awards may not have the standard clause incorporated, however, their expense-related allowances are adjusted in the same manner nonetheless.

⁴ [2010] FWA 3857 at paras 1, 3.

⁵ [2010] FWA 3857 at paras 6–7.

Calculating the adjustment of an expense-related allowance for the Group 1 Awards

As noted in the standard clause above, expense-related allowances are adjusted by the percentage increase in the applicable CPI figure between its most recent figure and its figure at the time the allowance was last adjusted. The allowance otherwise remains the same if the applicable CPI figure falls, remains constant or if the increase was not large to change the allowance dollar value after rounding.⁶

The adjustment of expense-related allowances is triggered at the time of any adjustment to the standard rate of a modern award through the annual wage review or otherwise.⁷ As the annual wage review decision generally comes into operation on 1 July, the latest CPI data available by then is the March quarter. This was the quarter used to update the expense-related allowances for the Group 1 Awards.

For example, the expense [determination](#) for the *Aged Care Award 2010* published on 26 June 2020 adjusted the vehicle allowance under clause 15.7(a) from \$0.78 to \$0.80. This was based on the percentage movement in the applicable CPI figure (the 'Private motoring' sub-group) available before 1 July 2020 (the March quarter 2020) and at the time the allowance was last adjusted, which was in the 2013–14 Review (the March quarter 2014). The relevant CPI figures over that period were as follows:

- CPI figure at last adjustment (March quarter 2014) = 103.8
- Latest CPI figure at Group 1 operative date (March quarter 2020) = 106.0
- Adjustment factor = $106.0 / 103.8 = 1.0211946$

Therefore, the vehicle allowance was calculated as $\$0.78 * 1.0211946 = \0.796532 , rounded to the nearest cent to be \$0.80.

The uniform and laundry allowances under clause 15.2(b) of the same award are an example of expense-related allowances which remained unchanged over the year. In fact, these particular allowances have remained the same since the award first came into operation. This is because the applicable CPI figure (for the 'Clothing and footwear' group) for the latest year did not increase above the index figure in the base period when the award was first made. This initial base period was set at the June quarter 2008 as provided in the 2010 [Statement](#).⁸ The relevant CPI figures in the 2019–20 Review were as follows:

- CPI figure at last adjustment (June quarter 2008) = 101.0
- Latest CPI figure at Group 1 operative date (March quarter 2020) = 94.8
- Adjustment factor = $94.8 / 101.0 = 0.938614$

Because the adjustment factor is not greater than 1, the uniform and laundry allowances remain unchanged and are omitted from the expense determination.

In the case of a new expense-related allowance, the CPI figure of last adjustment is taken to be the same quarter as that used for other allowances based on the same CPI group, unless the relevant

⁶ This has proven to be the case for allowances with low absolute values such as the Stonemasonry tools and equipment allowance (cl 24.1(d)(i)) from the *Joinery and Building Trades Award 2010*. Despite recording a positive adjustment factor in the 2019–20 Review by a little over 1 per cent, the allowance amount remained unchanged from the previous year at \$0.07 per hour when rounded to the nearest cent.

⁷ See [2010] FWA 3857 at paras 1, 3–4.

⁸ [2010] FWA 3857 at paras 5–6.

decision provides for otherwise. For example, the uniforms allowance in the *Ports, Harbours and Enclosed Water Vessels Award 2020* under clause 16.3(k) converted from a wage to an expense-related allowance at the commencement of the 2020 Award. This has the applicable CPI group of 'Clothing and footwear'. As this is a Group 2 Award, when this allowance is adjusted in November 2020, it is intended that the June quarter 2008 be used for the CPI figure at last adjustment as this is the same period used for all expense-related allowances adjusted via this group.

For information, the methodology and calculation of expense-related allowances is further outlined in the paper '[Methodology for adjusting expense-related allowances](#)' on the Commission's website. In addition, a [consolidated list](#) of Group 1 expense-related allowances with their calculated adjustment factor is also available and will be updated with the allowances for the Group 2 and Group 3 Awards as more recent CPI data become available.

Calculating the adjustment of an expense-related allowance for the Group 2 and Group 3 Awards

Consistent with the standard clause, the adjustment of the expense-related allowances for the Group 2 and Group 3 Awards will be triggered at their operative date. They will refer to the latest CPI data available at that time.

Table 1 shows the ABS release schedule of the CPI data and the expected release date of the expense determinations. The Group 2 Awards will refer to the September quarter 2020 CPI data, which will be published by the ABS on 28 October 2020. The Group 3 Awards will refer to the December quarter 2020 CPI, which is expected to be published on 27 January 2021.⁹

The timing of these releases means that these new expense-related allowances will only be known a few days in advance prior to them taking effect. The Commission will publish the draft expense determinations the day following the release of the CPI data, followed by the publication of the final determinations the day before their commencement date.

The Commission acknowledges that this does not leave much time for the parties to provide feedback on the draft expense determinations for both award groups. The schedule in Table 1 leaves only one whole business day for feedback before the Group 2 and Group 3 Awards come into operation. Any issues found with the determinations after their commencement date would be resolved through a correction with a retrospective effect.

Table 1: ABS CPI and expected determination release schedule using the latest available CPI quarter

Award Group	Award Group operative date	ABS CPI issue	ABS CPI release date	Expected draft determination release date	Expected final determination release date
Group 2	1 November 2020	September quarter 2020	Wednesday, 28 October 2020	Thursday, 29 October 2020	Saturday, 31 October 2020
Group 3	1 February 2021	December quarter 2020	Wednesday, 27 January 2021 (tentative)	Thursday, 28 January 2021	Sunday, 31 January 2021

Considerations for using different CPI quarters

Because the expense-related allowances of the Group 1, 2 and 3 Awards are to be based on different quarters of the CPI, it is possible that allowances of the same type will diverge. For example, the

⁹ This date will be confirmed in August 2020 on the [ABS release calendar](#).

vehicle allowances of the Group 1 Awards increased from \$0.78 to \$0.80 per km with reference to the March quarter 2020. The same allowances in the Group 2 and Group 3 Awards would be adjusted on a different adjustment factor, which could result in a different rate between the award groups.

The anomalies that may arise by using CPI data from different quarters can be addressed in submissions to the next annual wage review. Separate variations to the expense-related allowances in the awards in Group 2 and Group 3 may be required to address any issues.