

Methodological note

LABOUR COST STATISTICS GUIDANCE NOTE ON THE RECORDING OF GOVERNMENT SCHEMES RELATED TO THE COVID-19 CRISIS

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This guidance note aims to remind the main concepts used in labour cost statistics and, against this backdrop, to clarify how to record government schemes, such as short-time working arrangements and temporary lay-offs, introduced by several EU governments in the context of the COVID crisis.

Background

To mitigate the economic consequences of the COVID pandemic, most EU government have introduced new schemes - or extended existing ones far beyond their initial scope and conditions – that modify the working arrangements between employers and employees.

The most common schemes support employers and/or employees for all or part of the revenue losses caused by the crisis.

For instance, in case of short-time work arrangements, government may refund part of the labour costs, i.e. wages and/or social contributions borne by the employer. This can be seen as a compensation for maintaining wages despite the lower productivity of employees due to a reduced number of hours worked and, for those, to the loss of efficiency caused by consignment at home or other protection measures.

In case of temporary lay-offs, whereby employees do not work anymore for a period of time, the government may fully refund the wage bill paid by employers.

Such schemes impact the main variables collected in labour cost statistics, such as hours worked, hours paid, wage and non-wage costs. It is therefore important to record them in official statistics in a harmonized way across the European Union.

LABOUR COST STATISTICS

Labour cost statistics measure the cost of the production factor 'labour' for employers as well as the derived revenue (earnings) for their employees. For this purpose, data are collected on the volume of hours worked and paid, on the amounts paid by the employer in relation to employing labour as well as on the taxes and subsidies on labour collected (respectively paid) by government. Labour statistics also define the concept of employees to be included in their scope.

Labour costs are defined as:

Wage and salaries (D.11)

+ Social contributions payable by the employer (D.12)

+ Vocational training costs (D.2)

+ Other expenditure paid by the employer (D.3)

+ Taxes (on labour) paid by the employer (D.4)

- Subsidies (on labour) received by the employer (D.5)

Labour cost statistics are used as a source for indicators on labour productivity and should therefore appropriately reflect the volume of labour input, i.e. the number of hours actually worked, as well as the corresponding net costs for the employer. Moreover, any mismatch between the numerator (labour costs) and the denominator (hours actually worked) should be avoided to the extent possible.

Within the EU, the main methodological concepts used in labour cost statistics are described in Commission Regulation 1737/2005⁽¹⁾ which is consistent with SNA/ESA standards. Further guidance can be found in ESA2010⁽²⁾.

The concepts and definitions that are most relevant for a harmonized recording of COVID-related schemes are provided in annex to this document.

Recording of COVID-related arrangements

The most typical schemes introduced or extended by governments in the context of the COVID pandemic are short-time work on the one hand and temporary lay-offs on the other hand.

Under short-time work and assimilated schemes, the employee works a lower number of hours and is compensated for the hours not worked by its employer, government or both. The employer may compensate employees due to contractual obligations and collective agreements in force or at its discretion.

In the case of temporary lay-offs, the employee keeps an attachment to its job, in the form of an employment contract, but is temporarily not working. The employee is financially compensated, at least partially, by government funds that may transit or not through the employer.

⁽¹⁾ <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32005R1737>

⁽²⁾ <https://ec.europa.eu/eurostat/documents/3859598/5925693/KS-02-13-269-EN.PDF/44cd9d01-bc64-40e5-bd40-d17df0c69334>

1. EMPLOYEES

Under short-time work, temporary lay-offs and their many variants, employees remain within the scope of labour cost statistics which cover: *'all persons irrespective of their nationality or the length of their working time in the country who have a direct employment contract with the enterprise or local unit (whether the agreement is formal or informal) and receive remuneration, irrespective of the type of work performed, the number of hours worked (full-time or part-time) and the duration of the contract (fixed or indefinite).'*

2. HOURS WORKED AND PAID

Only *hours actually worked* should be recorded in labour cost statistics, insofar as they contribute to the production of goods and services (within the ESA production boundaries), be it with a lower productivity due to the constraints imposed by the measures taken in the context of the COVID-19 pandemic.

For instance, employees who telework should have their hours recorded as hours actually worked provided they can be reached by their employer during the usual working hours. Employees under short time work should record the lower number of hours actually worked.

By contrast, no hours worked should be recorded for employees who are locked down at home with no possibility to work on the tasks assigned by their employer nor for employees under temporary lay-offs.

To be recorded as *hours paid*, the employee should have been paid by the employer, at a full or reduced rate. This is also the case when the corresponding labour costs (wages and social contributions) paid by the employer are partially compensated by government.

When labour costs are fully compensated by government, the corresponding hours will be recorded as hours paid only if they correspond to hours actually worked. In case of temporary lay-offs for instance, under which the employee is neither working nor paid by the employer, no hour actually worked nor paid will be recorded even if the employee still perceives a remuneration through the wage bill issued by the employer (and fully refunded by government).

3. LABOUR COSTS

For an appropriate recording of short-time work, temporary lay-offs and their many variants, it is necessary to distinguish among the different situations in terms of hours worked by the employee and the hours paid by the employer.

Case 1: full number of hours worked, hours paid partially or fully refunded

In this case, the employee works the usual number of hours, be it through teleworking, and is paid by the employer which is partially or fully refunded by government e.g. to compensate for lower productivity.

The corresponding wages and salaries are recorded as D. 11, social contributions payable by the employer as D.12 (net of subsidies) and government refunds on wages as subsidies (D.5).

Hours actually worked are recorded as well as the hours paid, be they partially or fully refunded.

Rationale: labour costs statistics record the hours actually worked during the reference period and the corresponding remuneration. Government refunds are treated as subsidies (for wages) and deducted from social contributions (when reduced) as they reduce the labour costs normally borne by the employer for employing labour.

Impact on main indicators: hourly wage costs remain constant, or decrease if social contributions are reduced, and hourly labour costs decrease due to lower non-wage costs (subsidies).

Case 2: lower number of hours worked, hours paid partially or fully refunded

In this case, typical of short-time working arrangements, wages and salaries corresponding to hours actually worked are recorded as D.11. Wage and salaries paid for hours not worked are recorded as D.11 if they are paid at the discretion of the employer. They are recorded as D.1224 ('other imputed social contributions'), net of any subsidies, if the employer has the obligation to pay them under the working contract or the applicable collective agreements. Social contributions for all hours paid are recorded as D.12, net of any subsidies. Government refunds of wages are recorded as subsidies (D.5).

Hours actually worked are recorded as well as the hours paid, be they partially or fully refunded.

Rationale: labour costs statistics record the hours actually worked during the reference period and the corresponding remuneration. When the employer has the obligation to pay the wages despite a reduced number of working hours, this is considered as an insurance financed by imputed social contributions. Government refunds are treated as subsidies (for wages) and deducted from social contributions (when reduced) as they reduce the labour costs normally borne by the employer for employing labour.

Impact on main indicators: hourly wage costs typically increase, due to a lower number of hours worked, unless this is compensated by lower social contributions. This is fully or partially compensated by a symmetric decrease in non-wage costs (subsidies). Hourly labour costs remain constant if all effects exactly compensate each other.

Case 3: no hour worked, hours paid partially refunded

In this case, the employee is prevented from working but the employer still pays at least part of the wages and social contributions. The employer is then partially refunded by government from the labour costs incurred.

Wage and salaries paid are recorded as D. 1113 (payments for days not worked) if they are paid at the discretion of the employer. They are recorded as D.1224 ('other imputed social contributions'), net of any subsidies, if the employer has the obligation to pay them under the working contract or the applicable collective agreements. Social contributions for all hours paid are recorded as D.12, net of any subsidies. Government refunds of wages are recorded as subsidies (D.5).

The hours paid are recorded but no hour actually worked.

Rationale: there is no hour worked but wages and salaries and social contributions are recorded for the corresponding amounts paid by the employer to the employees. Government refunds are treated as subsidies (for wages) and deducted from social contributions (when reduced) as they reduce the labour costs normally borne by the employer for employing labour.

Impact on main indicators: hourly wage costs cannot be calculated at the level of the enterprise/local unit as there was no hour worked. Wage and salaries typically decrease as well as non-wage costs (due to subsidies). Hourly labour costs cannot be calculated at the level of the enterprise/local unit while total labour costs decrease.

Case 4: no hour worked, hours not paid or fully refunded

In this case, typical of temporary lay-offs, the employee is not working but is paid by government, at a full or lower rate, either directly (i.e. hours not paid by the employer) or through the channel of its employer (hours paid fully refunded). In both cases, no wages and salaries (D11) and no subsidies (D.5) are recorded in labour cost statistics.

No hour actually worked nor hour paid is recorded.

Rationale: there is no hour worked and no wages and salaries nor social contributions are paid by the employer or, when they are, the corresponding costs are fully compensated by

government. Government refunds are treated, for the wage part, as current transfers from government to the employer and from the employer to the employees. Social contributions are not recorded, being zero in net terms. The employer is deemed to act as an agent of government whose financial support to employees only transits through the employer. This way, the accounting treatment is the same irrespective of whether government funds transit through the employer or not.

Impact on main indicators: hourly wage costs cannot be calculated at the level of the enterprise/local unit as there was no hour worked. No wages and salaries nor social contributions are recorded. Hourly labour costs cannot be calculated at the level of the enterprise/local unit and no amount is recorded as total labour costs.

4. TIME OF RECORDING

Both wages and salaries (D.11) and social contributions (D.12) are recorded at the time the work is done. Even in case government allows differed payments, social contributions should be recorded at the reference period when the corresponding hours worked were reported.

ANNEX

EU legislation on labour cost statistics: main methodological concepts

The most relevant parts of the EU acquis are provided below, as stated in Commission Regulation 1737/2005 including annexes.

1. EMPLOYEES

Employees are all persons irrespective of their nationality or the length of their working time in the country who have a direct employment contract with the enterprise or local unit (whether the agreement is formal or informal) and receive remuneration, irrespective of the type of work performed, the number of hours worked (full-time or part-time) and the duration of the contract (fixed or indefinite). The remuneration of employees can take the form of wages and salaries including bonuses, pay for piecework and shift work, allowances, fees, tips and gratuities, commission and remuneration in kind.

The following list gives illustrative examples of categories of employees that are included:

- ...
- outworkers (3), including home workers and tele-workers, if there is an explicit agreement that such workers are remunerated on the basis of the work done: that is, the amount of labour which is contributed as an input into some process of production.

2. HOURS ACTUALLY WORKED

The statistics cover the total number of hours actually worked by all employees during the year. The total number of hours worked is recorded separately for full-time (B.11), part-time employees (B.12) and, when reported separately, apprentices (B.13).

Hours actually worked are defined as the sum of all periods spent on direct and ancillary activities to produce goods and services....

... Hours actually worked exclude the following, however:

- hours paid but not worked, for example: paid holidays/vacation, public holidays, absence due to sickness, maternity leave, force majeure events such as extreme weather conditions or natural disasters etc.,
- ...
- hours not worked (whether paid or not) during short-time working, labour disputes, lock-outs, etc.,

3. HOURS PAID

This variable covers the total number of hours paid during the year.

The annual number of paid hours is defined as:

- normal and overtime hours remunerated during the year,
- any hours for which the employee was paid at a reduced rate, even if the difference was made up by payments from social-security funds,

The annual number of paid hours is defined as:

- normal and overtime hours remunerated during the year,
- any hours for which the employee was paid at a reduced rate, even if the difference was made up by payments from social-security funds,
- hours not worked during the reference period but nevertheless paid (annual holidays/vacation, absence due to sickness, public holidays and other hours paid, including time off for medical examinations, births, weddings, funerals, moving house, etc).

4. D.1 COMPENSATION OF EMPLOYEES

Compensation of employees is defined as the total remuneration, in cash or in kind, payable by an employer to an employee in return for work done by the latter during the reference period. It is made up of the following components:

- wages and salaries (D.11);
- employers' social contributions (D.12), mainly consisting of employers' actual social contributions (D.121) and employers' imputed social contributions (D.122).

D.11111 *Direct remuneration, bonuses and allowances paid in each pay period*

This means remuneration in the form of regular cash payments paid regularly at each pay period during the year. For most employees, the pay period is weekly or monthly. Hence, payments received less frequently (monthly in the case of weekly regular payments, quarterly, bi-annually, annually) or on an *ad hoc* basis should not be included here.

(It includes) reduced working time allowance Extra payment (non-guaranteed) to compensate employees in full or in part for a reduction in the normal working time. (Guaranteed payments belong to D.1224).

D.1113 *Payments for days not worked*

Remuneration paid for statutory, contractual or voluntarily granted leave and public holidays or other paid days not worked.

5. D.121 EMPLOYERS' ACTUAL SOCIAL CONTRIBUTIONS

These consist of the payments made by employers for the benefit of their employees to insurers (social security and other employment-related social insurance schemes). These payments cover statutory, conventional, contractual and voluntary contributions in respect of insurance against social risks or needs. Employers' actual social contributions are recorded in the period during which the work is done.

6. D.1211 STATUTORY SOCIAL SECURITY CONTRIBUTIONS

Contributions paid to social security institutions payable by the employer and made compulsory by law. The amounts of such contributions must be entered net of any subsidies.

7. D.1224 OTHER IMPUTED SOCIAL CONTRIBUTIONS

This item refers to all other imputed social contributions of the employer not mentioned elsewhere, such as study grants for employees and their families or guaranteed remuneration in the event of short-time working. The latter is defined as direct payments of the employer to

employees to maintain remuneration in the event of short-time working minus any reimbursements paid to the employer by social-security institutions.

(It includes) working time allowance (i.e.) the guaranteed payment to compensate employees in full or in part for a reduction in the normal working time. (Additional payments, paid in each pay period, belong to D.11111)

8. D.5 SUBSIDIES RECEIVED BY THE EMPLOYER

These are all amounts received in the form of subsidies of a general nature intended to refund part or all of the cost of direct remuneration but not intended to cover social security or vocational training costs. They do not include refunds paid to the employer by social-security institutions or supplementary insurance funds.