Organization of remuneration in construction industry

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Abstract. The article explains the need of changing the approach to the calculation of a subsistence level and its influence on remuneration in construction. In connection with the consideration of the issue of the correction of defining a subsistence level judging by the median wage in the country at the meeting of the Government of the Russian Federation, the authors analysed the indicators of costing and actual wages in the construction industry by the example of the Irkutsk region. The analysis revealed an urgent need in increasing the amount of labour remuneration the today amount of which does not correspond to the Federal industrial agreement on construction and industry of construction materials of the Russian Federation. The article shows the result of the analysis for construction wages change at the estimation using the median wages in relation to an “absolute” principle for calculating a subsistence level. The authors show that such an increase is possible only in case of preserving the rules for wage calculation in the new industrial agreement on construction and industry of construction materials in the Russian Federation in 2021.

1. Introduction
Today the issue of optimization of the funds for plant labor remuneration, including the construction industry, should not include the improving of the employees living standards only but also on the increase of labor efficiency in Construction [1, 2]. As it is known, the formation of the amount of finance for labor remuneration directly depends on the subsistence level (SL) in the region [3]. Today the MW amount is calculated on the basis of the minimum consumption basket (MCB) content, introduced in 1997 by the Federal law No.134-FZ. Taking into account the fact that the MCB has undergone only slight corrections for a long period of 23 years, it is a long-felt need to optimize the methodical approach to its definition [4]. The Ministry of Labor and Social Development raised an issue on the correction of the MW definition principle at the meeting of the RF Government. It is suggested calculating MCB as a share of the median country income to be fixed for the next five years. A social essence of establishing a minimum monthly wage (MMW) is to protect the most vulnerable and low-paid employee groups. MMW definition in compliance with the median wage will help to narrow the gap between the incomes of the economically active population of Russia.

2. Materials and methods
The information basis of the scientific research is made by the data of the accounting (financial) records of the construction organizations of Irkutsk as well as the materials presented by Irkutskstat (irkutskstat.old.gks.ru) in the major “Construction”.

The research methods include the economic&statistical analysis, system approach, systematization of theoretical and practical material.
The analysis and optimization of the funds for labor remuneration as part of the construction product cost are based on the methodology of the definition of the construction products amount on the territory of the Russian Federation relevant for the research period.

3. Results

The existing model of a social consumption level and the procedure for defining the population poverty rate are derived from the USSR; they present they first “absolute” model [5]. In compliance with the model the poor people are those who don’t want any income for consuming the minimum basket of goods and services. Most countries of the European Union and OECD apply a “relative” approach according to which the poverty line is defined in relation to the “standard” consumption for the society [6].

The current content of a minimum consumption basket was approved in 2012 by the Federal Law No.227-FZ and consists of three sections:
1. Food products;
2. Non-food items;
3. Services.

The non-food items of MCB are connected with the food products as it is considered that the minimum consumption of non-food items should cost 50% of the product basket, and so do the services. Also, the minimum wages should be added to the amount of mandatory payments and levies. This “natural” basket should be revised every five years, so, the last review should have been done in 2018 but a significant increase in MMW and its increase up to the subsistence level resulted in the delay of such revision until the end of 2020.

The subsistence level is calculated for each region once in a quarter by three consumer types - working-age population, retirees and children.

Figure 1. The amount of the subsistence level for the working-age population of the Irkutsk region for 2013 – 2020.

As it is clear from the diagram, a season reduction of prices frequently causes the reduction in subsistence level by the third quarter of the year analyzed.

In compliance with the Rosstat data, only 13 regions of Russia (including Krasnodar, Volgograd, Ivanovo) have the subsistence level corresponding to the federal methods. 11 regions (Moscow, KhMAD and YNAO, Murmansk, Karelia) have a higher subsistence level while in 61 regions this level is lower than a conventional federal “minimum consumption rate” by 4.1–36.8%. In addition, since 2016 the subsistence level in Russia have consisted the minority of median costs; in Figure 3 one can see the ratio value fluctuating within 2.4 - 2.6.
On the basis of the abovementioned one can draw the conclusion on the urgent need in the correction of the principle for subsistence level definition and MMW. The Government of Russia suggests renouncing the calculation of the subsistence level as a statistical cost of MCB and define it as a part (44.2%) of the average income. As for the MMW the Ministry of Labor suggests establishing it at the level of 42% of median wages.

4. Discussion
The amount of the minimum subsistence level is directly connected with the method of funds calculation for the construction labor remuneration [7]. The planning of wage funds in compliance with the Method of Definition of Construction Product Cost (MDC81-35.2004) is based upon the indicator of the man-hour cost for each category. The cost of hour, in its turn, is defined on the basis of the subsistence level.

On the basis of the Labor Code of the Russian Federation every year general agreements on social-economic issues on the level of the state and employer, involving trade unions, which allows conducting a coordinated social-economic policy in the country in terms of labor remuneration payment [8]. The framework document for planning the remuneration in construction is the Federal industrial agreement on construction and industry of construction materials of the Russian Federation, concluded

**Figure 2.** Indicators of the median wages and subsistence level in Russia.

**Figure 3** Ratio between median wages and the subsistence level value.

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for 2017-2020; it took effect on January 1, 2017 and is valid until December 31, 2020 [9]. In the section “Labor remuneration and rating” of the industrial agreement the parties agreed on the following:

“Since January 1, 2017 the minimum amount of a standard monthly pay of the first category, worker occupied in construction or construction materials production at the operation in normal working conditions and providing a full completion of a monthly rate of the labor hours and the fulfillment of the worktime standard, is set with the indexation rate at least 1.2 of the subsistence level value for working-age population officially established in the corresponding territorial entity of the Russian Federation”.

In compliance with the Industrial agreement, the amount of the minimum monthly remuneration rate should be added to bonuses, awards and other rewarding incentives as well as the compensations for work in the non-standard conditions, for the work in special climatic conditions, other compensation, incentive and social payments.

However, on the basis of the analysis conducted, the authors conclude that a set hour payment in construction does not always correspond to the Industrial agreement [10,11].

Table 1. Comparative change of the man-hour cost according to the Industrial tariff agreement and an actual value given in the Information bulletin (Irkutsk region)

| Indicators | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|------------|------|------|------|------|------|------|------|
| Man-hour cost (4th category), CCI(construction cost index) | 178.5 | 179.14 | 186.45 | 186.45 | 186.45 | 186.45 | 188.42 |
| Man-hour cost(4th category) under Industrial tariff agreement | 154.23 | 158.75 | 165.16 | 164.64 | 164.64 | 164.64 | 207.27 |
| Man-hour cost deviation, % | 13.60 | 11.38 | 11.42 | 11.70 | 12.31 | 19.15 | 14.47 |

As it is clear from the table, the deviation is negative starting from the first quarter 2015 and until virtually the present day which, in its turn, leads to decrease in the costing and actual wages in construction [12,13].

As a result of the transition to a new method of defining the SL and MMW depending on the median wage level, it is expected that the wages in construction will grow which should inevitably result in the growth of labor efficiency and the construction product quality [14,15].

The median wage in Russia is calculated by Rosstat every two years in April in the odd-numbered years. In April 2019 it was equal to 34,335 rubles. Consequently, this indicator will be taken as the calculation basis until April 2021. In compliance with the projects it is suggested establishing the value of the subsistence level in the amount of 44.2% of the median wage and securing this indicator for the next five years. The SL for the working-age population is suggested being defined as 109% of this indicator, the subsistence level for children - 97%, and for the retiree - 86%. In monetary terms the subsistence level on the median wage until April 2021 will be equal to 16,541.92 rubles. Comparing with the SL for Q2 2020 in the amount of 13,012 rubles, obtain the deviation 21.34%; however, in due course of time the deviation becomes smaller, and for Q2 2021 it is expected to be 18.1%.
Today the media wage in construction is calculated for the rate of the 4th category worker which, in its turn, consists of the SL value multiplied by 1.2 with the account of the 35% increase and the regional coefficients. When used as the basis for SL calculation on the consumer basket, the median wage for the “Construction” industry is significantly higher than the median wage. The minimum deviation the amount of 14.7% is observed in 2016, the maximum deviation (25.8%) in the current 2020. That is why the wage growths in construction at the transition from the “absolute” to the “relative” approach is open to speculation.

The growth of wages in construction is possible only in the case the minimum subsistence level is set by the median wage value while the rules for calculating the labor remuneration funds in construction will remain unchanged in compliance with the Federal industrial agreement in construction and industry of the construction materials of the Russian Federation to be approved in 2021. Under such conditions, one can expect the growth in the median wage in construction by 20%.

The authors conducted the analysis of labor remuneration change in case of the transition from the “absolute” to the “relative” method (exemplified by 2013-2020); the results are provided in Table 2.
Table 2. Analysis of remuneration change at the transition from the “absolute” to the “relative” approach to the SL calculation

| Indicators | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|------------|------|------|------|------|------|------|------|------|
| median wage | 21268 | 23800 | 24860 | 26544 | 28345 | 28345 | 34335 | 34335 |
| subsistence level on the median wage (“relative” approach) | 10246 | 11466 | 11977 | 12788 | 13656 | 13656 | 16542 | 16542 |
| average wage (4th category worker) by the “relative” approach | 35589 | 39826 | 41600 | 44418 | 47431 | 47431 | 57455 | 57455 |
| average wage (4th category worker) by the “absolute” approach | 27001 | 30034 | 30743 | 31121 | 33252 | 35227 | 42135 | 46280 |
| average wage deviation, % | 24.13 | 24.59 | 26.10 | 29.94 | 29.89 | 25.73 | 26.66 | 19.45 |

Figure 6. Expected change in the average wages in construction by the example of Irkutsk.

5. Conclusion
Due to the expected change in the method used to calculate the subsistence level in Russia and regarding the information of the Ministry of labor and social development, the authors draw the conclusion that the average remuneration in construction can change by 20-25%. However, this growth is possible only providing that, at the conclusion of the next Federal industrial agreement on construction and industry of construction materials in the Russian Federation in 2021, all the parameters and methods used to calculate the funds for labor remuneration in construction will be preserved. Otherwise, the costing remuneration will be reduced comparing with the actual wages relevant for today. This reduction is confirmed by the analysis of remuneration funds presented in Table 1.

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