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A Dwindling Pie? Implications of the 2001/2002 Budget for Public Service Bargaining[1]

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1. Summary

This memorandum provides an analysis of the budget outlook for the 2001/2002 wage negotiations in the public service.

The budget analysis indicates that:
- For the current financial year the personnel budget is projected to grow by 7.1%. This translates to a 1.5% real increase.
- Over the medium-term (i.e. until the 2003/2004 financial year) the average percentage increase is projected at 5.8%. This translates to a small real increase of 0.8%.
- These trends indicate that government is following its inflation-plus 1% policy for wage increases as outlined in it's *Personnel Expenditure Review (1999).*

However, the bargaining outlook is even bleaker as government has the following wage commitments in the current financial year (e.g. payment of R850 across the board as no pay progression system has been agreed to). The impact of this is that the envelope for bargaining is actually smaller than the projected amounts.

The impact on bargaining is that:

[1] This briefing note has been prepared at the request of the COSATU Public Service Task Team. The task team consists of COSATU Policy Desks, NEHAWU, SADTU, POPCRU, SASAWU, DENOSA and SADNU. Comments from unionists and colleagues at NALEDI are greatly appreciated.

- Retrenchment pressures and other cost-efficiency exercises (e.g. outsourcing) are likely to increase.
- Government may try to wiggle out of its current commitments in order to balance its books.
- Pressure will be placed on trade unions to sign a three-year agreement linked to the budget.

Strategies to respond to these pressures need to be developed by unions.

The impact on service delivery is also likely to be great, as:
- Wage containment (i.e. not increasing the wage bill as a percentage of the budget) in Africa is usually associated with a decrease in public service capability.
- The current budget will place a limit on employment in key areas (e.g. Early Childhood Development).
- Career pathing, and skills development are key areas that will be compromised.

The picture for bargaining is thus bleak. Unions will need to provide leadership in this process, if they are to create security for workers and improve public service delivery. One hopes government is open to discussing these issues.

2. Introduction

The budget speech is the first source of information for annual wage negotiations in the public service. Unionists carefully dissect the personnel expenditure trends presented, as it provides an indication of the 'initial offer' that government will present during wage negotiations. Of course, as with all employers the initial offer from government is not the final one, and some space exists for increasing the offer. This bargaining brief analyses the 'initial offer' from the state as contained in the 2001/2002 budget, and concludes that opening space for discussing the budget allocation would enhance the possibilities for a meaningful agreement in the public service. A meaningful agreement is one that firstly, provides security for workers and secondly, improves service delivery.

This bargaining brief aims to:
- indicate and explain the budget trends for personnel expenditure;
- assess the causes for this trend; and
- indicate key implications for bargaining and service delivery.

As such, this bargaining brief does not analyse the structural problems associated with the bargaining season and budget cycle. This will be analysed in a separate bargaining brief. Moreover, substantive critique of current macroeconomic policy is embedded in this analysis, but discussed in detail elsewhere (see *Peoples Budget 2001/2002*).

However, the restrictive macroeconomic framework that currently guides government provides a setting for wage negotiations. Moreover, the ideological assumptions of the Growth, Employment and Redistribution strategy (GEAR) have been criticised by COSATU. The choices on personnel expenditure reflect GEAR.

3. Budget Outlook

Table 1 below provides the estimates as provided in the *Budget Review 2001/2002*.

Table 1: Estimates for Personnel Expenditure (2001 – 2004) R millions

	2000/2001	2001/2002	2002/2003	2003/2004
	92 376	98 905	104 170	109 302
% increase	---	7.1	5.3	4.9
Projected inflation (CPI)	---	5.6	4.8	4.5
Real increase	---	1.5	0.5	0.4
Average % over MTEF period				5.8
Average real increase over MTEF period (2001 –2004)				0.8

Source: Inflation estimates and wages projections drawn from Budget Review 2001/2002. Inflation rates used are CPI

The table indicates the following trends:

- Increases in personnel expenditure are closely linked to inflation. The trend conforms to policy espoused in the *Personnel Expenditure Review (1999),* to provide an inflation plus 1% increase in personnel spending.
- Over the medium term (i.e. 2001/2002 to 2003/2004) personnel expenditure is reduced as a percentage of the budget from 44.5% to 42.2%.
- The average percentage increase over the medium term is projected at 5.8%.
- The average real increase over the medium term is a paltry 0.8 %. If one uses CPIX (i.e. CPI minus interest rates) the projected average real increase is 0.6%.
- For the current financial year (i.e. 2001/2002) personnel expenditure costs are estimated to increase by 7.1% in percentage terms, which translates to a 1% real increase.

The budget outlook for the current financial year is however complicated by existing commitments that the state has agreed to. These commitments are:

- An across the board payment of R850 in the current financial year, should a pay progression system not be agreed to by 1 July 2001.[2] This amount is estimated at R850 million.

[2] Clause 8.3. of the 2000/2001 wage settlement reads as follows 'Employees shall receive R 850 across the board if a pay progression system is not agreed to and implemented by 1 July 2001. If a

- A special dispensation for the police, which is estimated at R400 million.[3]
- Removing backlogs in rank-and-leg promotions (which are envisaged to occur over four years according to the wage settlement for 2000/2001).
- Spending on skills development.
- Implementation of the Basic Conditions of Employment Act (BCEA).
- Introduction of the flexible remuneration packages for senior managers in the public service.

The existing commitments significantly reduce the amount of money available for bargaining. While all the commitments cannot be fully costed due to lack of information, even within government, estimates on the special dispensation for police and on the implications of pay progression are available. Table 2 provides a projection on the actual money that will be available for bargaining should the state honour commitments on pay progression and special dispensation for police.

Table 2: Estimates on spending after meeting existing commitments on salaries (R millions)

Monies available before commitments	**R 6 529**
Less commitments	R 1 250
Less payment of R 850 across the board	*R 850*
Less special dispensation for police	*R 400*
Monies available after commitments	**R 5 279**

The impact of meeting these commitments changes the bargaining environment significantly. Table 3 summarises the impact on percentage and real increases once some major commitments are estimated.

Table 3: Impact of existing commitments on amounts available for 2001/2002 bargaining round (R millions)

	2000/2001	20001/2002
Estimates before commitments (R m)	R 92 376	R 98 905
% increase (2000/2001 to 2001/2002)		7.1
Real increase (2000/2001 to 2001/2002)		1.5
Estimates after commitments (R m)	R 92 376	R 97 655[1]
% increase (2000/2001 to 2001/2002)		5.7
Real increase (2000/2001 to 2001/2002)		0.1

pay progression system is not agreed to in subsequent years the amount of R850 shall be increased according to inflation.

[3] Agreement reached at the Safety and Security Bargaining Council, Resolution 4 of 2001. The agreement provides for a) a revamped set of allowances and b) salary adjustments for selected occupations in the police service.

1 This is the budgeted amount minus the existing commitments. The overall budget allocation has been reduced by an estimated R1 250 million, as outlined in Table 2.

The analyses of existing commitments indicates that:

- The actual amount available for bargaining is reduced from R6 529 million to R5 279 million. This is a decrease of R1 250 million for only the costs for pay progression and special dispensation for police.
- In the current financial year this reduces the amounts available by 1.4%. This means that a projected 1.5 % real increase in personnel spending is actually a 0.1% real increase for bargaining purposes.

The actual commitments are however larger, and will have financial implications. The actual amount available for wage increases may thus be less, after all commitments are costed (e.g. backlog on rank-and-leg promotions).

4. Implications for Bargaining

In this section the following implications for bargaining are addressed:

- wage-employment pressure;
- impacts of existing commitments; and
- outlook over the medium term.

4.1 Is government creating a wage-employment trade-off?

A key outcome of the numbers presented is the so-called wage-employment trade-off. Simply speaking, this trade-off means that for government to contain personnel expenditure they will need to achieve savings, or in the words of government ‘cost-efficiencies’.

This year this trade-off will become more evident in government’s negotiations strategy due to:

- commitments that they currently have; and
- excessively tight control over personnel expenditure.

This trade-off could simply be a negotiations tool, aimed at reducing our wage demands. Simply, unions would be required to prioritise employment over high wage increases. COSATU unions have consistently argued that this is a false trade-off, as unions are concerned not only with worker security but also with the wider direction of public service transformation.

In her budget speech (i.e. Budget Speech for the Department of Public Service and Administration Vote), Minister Fraser-Moleketi offers the following warning:

> *Although retrenchments are inevitable in certain sections, the emphasis now is on the sustainable management of the wage bill through medium term human resource and expenditure planning. (Fraser-Moleketi: 2001)*

This is the clearest indication yet that government sees a trade-off between wages and employment. More seriously, the 'inevitability' of retrenchments needs to be questioned more extensively. (The next briefing note will focus on this issue.)

4.2 Impacts of government's existing commitments

Government is acutely aware of the impact of the existing commitments on this year's bargaining round. Two major options are open to government. These are:

- **Finalise an agreement on career paths**
  The payment of the R850 across the board only applies if there is no agreement on career paths by 1 July 2001. Government has the option of trying to reach an agreement – even a partial one – before 1 July 2001. This is likely to be the preferred option of government, as a) they will attempt to use time pressures to extract concessions from unions and b) it is the only option that honours current agreements within fiscal parameters.

  - **Using the existing commitments for leverage**
    Ironically, the existing commitments put unions in a difficult position as well. Unions after all need to be seen to be winning material improvements for their members. Government could easily offer higher increases should unions concede on the R850 payment for all workers. This would be tempting as unions could report higher salary increases to members. However, unions would loose the leverage that they have in pushing government to negotiate new career progression systems (i.e. the current commitments for across the board payments extends to the next year, should a pay progression system not be finalised in the current year).

4.3 Outlook over the medium term

Government officials have consistently argued – both formally and informally – that a multi-year agreement is needed in the public service. It is difficult to assess whether this will form part of government's negotiations strategy at this stage. However, a cautionary note is appropriate.

Minister Fraser-Moleketi in her budget speech formalises this position by stating that:

> *Encouraged by the agreement of the Jobs Summit and a renewed sense of partnership with our unions, we intend proposing that we move towards a three-year wage agreement that is in line with the MTEF/MTSF planning cycle of government. (Fraser-Moleketi: 2001)*

In other words, wages must be linked to the budget projections provided in the Medium-Term Expenditure Framework (MTEF). As such, the basis for negotiations will be the estimates provided in Table 1. Should unions agree to a multi-year agreement – using the MTEF as a basis it will lead to small salary increases, and less protection for workers' wages (e.g. if inflation increases). In this scenario, the gains for unions would be difficult to argue.

This is not simple conjecture, but relies on experiences from the 'Three-year Agreement' signed in 1996. The major weakness of this agreement were:

- Government relied on several escape clauses that allowed it to revisit the initial agreements.
- Unions attempted to challenge these variances at a time when spaces for engagement on macroeconomic policy were severely closed.

However, under a different set of arrangements – including a better-drafted agreement – a wage policy for the next few years might strengthen security for workers.

5. Implications for Service Delivery

The *Budget Review 2001* states the following:

> *The stabilisation of personnel expenditure will also enable additional spending on key inputs which have been under substantial pressure in recent years. This is especially true for provincial services where spending on textbooks and other learner support materials in education, and on medicines and related inputs in health, is set to grow strongly over the next three years. This will facilitate the effectiveness of these sectors.*

The trade-off being argued here is between personnel costs on the one hand, and capital costs (or more precisely input costs) on the other. Government is arguing that by stabilising personnel costs, more money will be available for service delivery.

Unions have engaged this debate over the last few years, and have argued that:

- Sectors like health and education are inherently labour intensive.
- Spending on personnel is an important investment, among other investments, for improving service delivery.
- False trade-off between personnel versus capital spending. Instead the real trade-off is between service delivery and conservative macroeconomic stance. (see COSATU: 1999)

Evidence seems to support these arguments from trade unions. First, wage containment in Africa is usually associated with a decrease in public service capability. Ian Lienart, a researcher at the International Monetary Fund argues that:

Although cutting costs by squeezing real wages contributes to macroeconomic stability, beyond a certain point it becomes counterproductive. (1998)

Lienart identifies the costs associated with ‘squeezing real wages’ as demoralisation of the public service, absenteeism, moonlighting and increases in corruption.

Or, as a famous quotation from an analysis of the Ugandan public service – which practised severe wage restraint in the public service – puts it:

The civil servant had to either survive by lowering his standards of ethics, performance and dutifullness or remain upright and perish. He chose to survive (Quoted in Mukherjee et al.: undated)

Wage containment thus comes at a cost. If that cost is reduced effectiveness and probity in the public service, it is a cost that our country can ill-afford.

Second, the severe wage containment strategy will impact on attempts to improve service delivery. After all, wage containment places a limit on employment. However, increased employment is needed in selected areas (e.g. early childhood development, an integrated justice sector and professional skills in the health sector). The blunt objective of containing wages could thus detract from building up key areas to equalise and extend services.

Many in government do not face this reality, but rather argue that ‘government cannot be an employment agency’. This is a convenient way to reduce a very important debate to the level of rhetoric. Sophisticated analyses of the public service will however reveal major areas of under-staffing, over-staffing and areas with gross inequities in the distribution of skills. Thus the debate is not government’s status as an ‘employment agency’, but rather the need to find ways to equalise and extend services. This will entail redeployment and retraining, but strategic increases in employment are unavoidable if services are to be improved in working class areas.

Third, the personnel expenditure projections do not support the development of a motivated, disciplined, ethical and career public service. Folscher indicates that the current growth in the wage bill is insufficient to support improving capacities in the public service. (Folscher: 1999) Funds for career pathing and skills development are key areas that are likely to be compromised under the current budget projections.

6. Conclusion

This bargaining brief has set out the budget trends for personnel expenditure, and has indicated a bleak picture for reaching a quick settlement during this financial year. Moreover, the costs for service delivery are likely to be high. Unions will thus need to work hard to seek creative solutions to avoid a likely impasse. Government for its part needs to demonstrate a commitment to honouring previous agreements, and to providing a fair wage increase to workers. A deliberate and detailed discussion on the budget for personnel spending is thus a condition for both parties finding each other. One hopes that the ‘initial offer’ from government will not be presented as the ‘final offer’.

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Bargaining Resolutions and Circulars

Resolution No 4 of 2001 signed at the Safety and Security Bargaining Council

Resolution No 7 of 2000 signed at the Public Service Bargaining Council

Circular No 3 of 2000 on Flexible Package for Senior Managers issues by the Director-General Public Service and Administration

This is the first in a series of bargaining briefs requested from NALEDI by the COSATU Public Service Task Team. The next bargaining brief will focus on retrenchments in the public service.

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