Govt to implement 7.5% public sector wage increase through 'significant trade-offs'

National Treasury says it has noted the outcome of wage negotiations at the 2023 Public Sector Coordinating Bargaining Council (PSCBC).

Image source: Christos Georghiou – 123RF.com

According to a statement released on Friday, the majority of parties have agreed to a two-year agreement, which encompasses a 7.5% increase.

This will result in the current cash allowance being translated into a pensionable salary, plus an increase of 3.3% in 2023/2024, and a Consumer Price Index-linked increase in 2024/2025.

The employer's final offer tabled on 17 March 2023 at the PSCBC entailed the following provisions:

- A two-year multi-term agreement for the financial year 2023/24 and financial year 2024/25.
- Pensionable salary increases of 7.5% for employees on levels 1 – 12 packaged as follows:

    a. Translation of the current non-pensionable cash gratuity at the value of 4.2% on the baseline.
    b. A nominal increase of 3.3% across the board.
    c. The pay progression of 1.5% for all qualifying public servants shall continue, as per the existing dispensation across all departments.

Government says it has ensured that the latest public sector wage agreement is implemented through "significant trade-offs".

The cost of the agreement, according to Treasury, is estimated at R37.4bn in 2023/2024, with carry-through effects also applicable for subsequent financial years.

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“The 2023 Budget did not pre-empt the outcome of the wage negotiations.

“In this regard, the outcome of the wage bill negotiations was identified as one of the key risks to the fiscal outlook presented in the Budget. This risk has now materialised,” Treasury said.

During the tabling of the 2023 Budget, the Minister of Finance, Enoch Godongwana, cautioned that an unbudgeted wage settlement will require very significant trade-offs in government spending because the wage bill is a significant cost driver.

“It will mean that funds must be clawed back in other ways. Mainly, this will mean restricting the ability of departments and entities to fill non-critical posts. It will also mean achieving cost savings from the major rationalisation of State entities and programmes.

“As indicated by the President in the State of the Nation Address (SONA) in February, National Treasury has already identified where large savings can be achieved,” Godongwana said in his February Budget Speech.

Meanwhile, government said it remains committed to reducing the fiscal deficit to more sustainable levels and stabilising debt.

“Therefore, government will initiate processes to ensure that the latest wage agreement is implemented through significant trade-offs in the short-term and over the medium-term,” the statement read.

“Moreover, National Treasury reiterates the position that government borrowings will not be increased for consumption expenditure, including paying for wages. Fiscal policy will remain focused on reducing fiscal risks and supporting measures to grow the economy. This will ensure that the overall fiscal path as outlined in the Budget is maintained,” Treasury said.

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In addition, it is finalising several measures for implementation, including containing as much of the wage increase within the compensation ceiling by restricting recruitment for non-critical posts.

“In this way, headcount attrition will cushion the blow of the wage agreement,” Treasury explained.

Government said it would also restrict previously-planned recruitment in certain areas, delay projects and programmes funded within the budget and allow departments to shift funds towards the increased compensation costs.

It is also committed to implementing rationalisation measures, including as it relates to public entities and reducing out-of-line remuneration in public entities.

Treasury said it is concluding a process to identify public entities that receive transfers from government, where remuneration policies promote exorbitant or overly-generous pay packages, particularly for “entities that do not raise [their] own significant revenue”.

As outlined in the Budget and by the Minister of Finance, Treasury said these measures and others will be aggressively pursued during the current financial year.

“In addition, medium-term measures to rationalise the operations of the State will be finalised and will be announced during the 2023 Medium-Term Budget Policy Statement,” said the department.