Public Service Wage Memorandum & Demands

2011/12

Introduction

This wage memorandum contains our motivation for the demands. In order to give meaning and expression to the wage demands this memorandum covers the following areas: Socio-economic Context; 2010 Budget Review; Salary Increases & Consolidated Expenditure; Inflation Forecasts; Real Wages in the PSCBC; and Substantive Demands.

Socio-economic Context

This section outlines the socio-economic context for the 2011 salary negotiations in the Public Service Collective Bargaining Council. This memorandum recognises that despite the positive progress made since the democratic breakthrough in 1994 South African society remains characterised by inequality, job losses, unemployment and poverty.

Since 1995 redistribution of income from the rich to the working class has not occurred. Besides the decline in the real incomes of working class households between 1995 and 2005, income inequality has increased across the board. In 1995, the Gini coefficient stood at 0.64 but it increased to 0.68 in 2008. The share of employees in national income was 56% in 1995 but it had declined to 51% in 2009, i.e. there has been reverse redistribution from the working class to the rich. The top 10% of the rich accounted for 33 times the income earned by the bottom 10% in 2000. This gap is likely to have worsened, given the fall in the share of employees in national income and the ongoing global crisis of capitalism that started in 2008.

The Minister of Finance has acknowledged that 50% of the population lives on 8% of national income in South Africa. Approximately 20% of South Africans earned less than R800 a month in 2002. By 2007, approximately 71% of African female-headed households earned less than R800 a month and 59% of these had no income; 58% of African male-headed households earn less than R800 a month and 48% had no income.

In 2008 the top 20 directors of JSE-listed companies earned an average of R59 million per annum each whilst in 2009 the average earnings of an employee in the South African economy was R34 000. On average, each of the top 20 paid directors in JSE-listed companies earned 1728 times the average income of a South African worker. On average, between 2007 and

2008, these directors experienced 124% increase in their earnings, compared to below 10% settlements that ordinary workers tend to settle at.

Directors in state-owned enterprises also experienced the same rate of increase in their earnings, thereby contributing to income disparities in the economy. The top 20 directors in SOE's experienced a 59% increase in their earnings, collectively raking in R132 223 million. This amounts to R6.6 million per director, which is 194 times the average income of the South African worker.

Within the context of the worst global crisis since the 1930s we have lost over 1.1 million jobs between 2009 and 2010. This amounts to an average of R35 billion worth of employees incomes being lost. This has plunged 5.5 million South Africans into poverty. Unemployment continues to persist and increase. Overall, the unemployment rate in the South African economy was 31% in 1995 and increased to 39% in 2005. Unemployment among Africans was estimated to be 38% in 1995 and it stood at 45% in 2005. This is a massive wastage of human resources, which could be mobilized for service delivery and development. As of 2009, the rate of participation of Africans in the labour force was 52%. Among emerging markets, South Africa has the lowest labour force participation rate.

There is no official poverty line for South Africa, yet based on measures that are sensitive to household size, one study found that 57% of individuals in South Africa were living below the income poverty line in 2001, and this remained unchanged from 1996. Measures that assume individuals need R322 a month to survive show that individual poverty has declined from 52.5% to 48%. The economy continues to reproduces poverty while the state remains unable to improve public service delivery for a growing number of users.

South Africa remains locked into structural inequality, job losses, unemployment and poverty. We remain more determined than ever to create a developmental state that is directed towards delivering good quality services to the working class population. Improvements in public service delivery is dependent upon better wages and conditions of service for public servant, filling vacancies and creating decent jobs to deliver services, investing in social and human capital, improving resource allocations, in-sourcing privatised services and fighting corruption.

2010 Budget Review

The 2010 Budget was tabled in the context of the ongoing global capitalist crisis. The 2010 Budget is about people, their desires, their needs and their hopes and expresses government's political priorities.

The President of South Africa in his 2010 address signalled a new approach and new ways of doing things setting measureable service delivery outcome targets to:

- Deliver more and better services in a caring and efficient manner
- Hold political office bearers and public servants to accountable
- Shift resources to new priority areas
- Move from debate to effective implementation and decisive action; and
- Work in partnership with communities, labour and business to achieve our shared objectives

The 2010 Budget presents government's fiscal stance, tax proposals, and spending priorities to improve service delivery including compensation for employees.

Table 1 shows the compensation for employees, the percentage increase, the actual CPI for 2009/10 and the CPI forecasts going forward, plus the salary increase after taking into account the Budget inflation forecasts.

Table 1: Compensation for Employees (2010 Budget Review)

R billion	2010/11	2011/12	2012/13
Compensation for Employees	269.1	288.6	303.1
Percentage increase	8.7	6.8	5
CPI Forecasts	5.7	6.2	5.9
Increase after accounting for inflation	2.0	0.6	-0.9

Source: 2010 Budget Review

The 8.7 percentage increase in compensation for employees for 2010/2011 accounted for the 7.5% salary increase and the R800 housing allowance amongst other priorities such as senior management remuneration.

The 2010 Budget commits to deliver more services over the next few years within a tight resource envelope and manage growth in its consumption expenditure – wages, goods and services – and obtain better value for money. Taking steps to reprioritise public expenditure a total of R87 billion has been added to spending plans over the next three years. These resources will go to education, health, creating jobs, fighting crime, infrastructure, human settlements and improving local government.

The 2011/12 percentage increase of 6.8% against the background of the inflation forecast of 6.2% provides for a 0.6% “real” increase over and above inflation.

This round of negotiations, to commence from the beginning of October 2010, is intended to align the negotiation process with the budget processes. It is important to note that the Medium Term Budget Policy Statement of 27 October 2010 will provide revised estimates for compensation for employees.

Salary Increases & Consolidated Expenditure

The impact of salary increases on consolidated government expenditure is important to determine as it indicates the relative size of wages. Table 2 shows public service wages as a percentage of total consolidated expenditure.

Table 2: Compensation for Employees and Total Consolidated Expenditure

2010 BUDGET REVIEW	Revised	Budget Estimate		
R billion	2009/10	2010/11	2011/12	2012/13
Compensation of Employees	247.5	269.1	288.6	303.1
Total Consolidated Expenditure	786.9	849.6	923.7	1003.0
Compensation of employees as % of Total Consolidated Expenditure	31.5	31.7	31.2	30.2

Source: 2010 Budget Review

The data shows that personnel spending in 2009/10 starts at 31.5% of total spending rising to 31.7% in 2010/11 and falling to 30.2% in 2012/13. Should these projections of total consolidated expenditure improve, then the share of the budget going towards wages will decrease further. Government's commitment to ensuring that the compensation for employees remains pegged at 30% of the total expenditure, is strengthened by the 2010 Budget Review data.

According to a government spokesperson the Finance Minister Pravin Gordhan's medium-term budget policy statement (27 October 2010) will be "good, strong and optimistic". Analysts are speculating this is because economic growth so far this year has exceeded the forecasts made in the February budget, and tax collections are also outstripping projections.

The South African Reserve Bank (SARB) said in its October Monetary Policy Review released on 14 October 2010 estimates a 2.8 percent growth rate in 2010, 3.2 percent in 2011 and 3.5 percent in 2012.

At end-August revenue stood at 38.5% of what was budgeted for the full fiscal year compared with 34.9% in August 2009. In addition to this improvement, tax revenues can be expected from mining profits.

The October 2010 Medium Term Budget Policy Statement (MTBPS) provides a summary for 2010/11 adjustments. The adjustments budget makes provision for an additional R7.2 billion in vote allocations for 2010/11. Included in the additional allocations are higher than expected personnel remuneration adjustment costs of R6.2 billion.

A contingency reserve of R6 billion was set aside in the main budget. Budget spending projections also make provision for about R3.6 billion in underspending at a national level (including declared savings). Offsetting this R9.6 billion available on the main budget against the R7.2 billion in the adjustments budget, the total estimated level of spending decreases by R2.5 billion, from a budgeted R818.1 billion to an adjusted R815.7 billion.

Inflation Forecasts

Inflation is the measure of the increase in the price of goods and services over time. It is important to acknowledge that wage increases are operational going forward, and it is therefore important to have an informed opinion of what inflation might do.

Of significant importance is whether a projected increase represents a real increase. In other words, once inflation - equivalent to a cost of living adjustment - has been accounted for will workers receive a “real” wage increase? In the context of the ongoing global crisis of capitalism forecasting inflation has become increasingly uncertain.

Sustained rand strength is prompting a dramatic revision of inflation forecasts. A survey commissioned by the SA Reserve Bank by the Bureau for Economic Research indicated inflation expectations were lowered for all forecast periods. If the rand continues to remain strong inflation is expected to remain below the upper end of the inflation target of between 3% and 6% in 2012.

However, inflation forecasts exist, from both government and the private sector. Table 3 shows the inflation forecasts of the National Treasury and three large South African banks.

Table 3: CPI Inflation Projections (2009-2011)

Inflation (Headline CPI Forecasts)			
Year	2010	2011	2012
National Treasury	5.7	6.2	5.9
Nedbank	4.4	4.9	6.5
Standard Bank	4.3	4.6	5.7
FNB	3.6	5.4	6.2

Sources: Budget Review (2010), FNB (2010), Standard Bank (2010), Nedbank (2010)

The inflation forecasts for 2011 indicate the following:

- The range for 2011 is between 6.2% and 4.6%.
- Due to growing uncertainty there is little alignment between the National Treasury projections and the banks.
- The National Treasury inflation forecast is at the upper end of the target band at 6.2%.
- The banks’ inflation forecasts are range bound between 5.4% and 4.6%.

The bank expects inflation to remain in the target range of between three and six percent in 2010, 2011 and 2012.

The headline CPI (for all urban areas) annual inflation rate in December 2010 was 3.5%. This rate was 0.1 of a percentage point lower than the corresponding annual rate of 3.6% in November 2010. On average, prices increased by 0.2% between November 2010 and December 2010.

The official average annual inflation rate was 4.3% for the year 2010. The official average annual inflation rate was 4.3% for the year 2010 (i.e. the average CPI for all urban areas for the year 2010 compared with that for the year 2009). This average annual inflation rate of 4.3% was 2.8 percentage points lower than the corresponding average annual inflation rate of 7.1% for the year 2009.

However, the strong rand has been highlighted as the factor expected to cause the major downside risk to the inflation outlook. The global crisis of capitalism provides little certainty and there remains a threat of rising inflation with the potential risks from food price increases, particularly related to wheat prices.

Real Wages in the PSCBC

This analysis considers real wage gains and losses using percentage wage increases between 2007 and the present and contrasting them with changes in the consumer price index over time.

Table 4: Wage Increases contrasted to CPI (2007 to 2011)

	WAGE INCREASE	WAGE RATE
07 base wage		100
08 wage increase (%)	10.50%	110.5
09 wage increase (%)	11.50%	123.2
10 wage increase (%)	7.50%	132.4

Increase in wages 2007- June 2011 (%)		**32.4**	

CPI June 2007	actual	89.4	
CPI June 2008	actual	100.1	
CPI June 2010	actual	111.5	
CPI August 2010	actual	112.3	
CPI June 2011	projected	119.3	7%
		118.2	6%
		117.1	5%

Increase in CPI June 2007 - June 2011 (%)	scenario 1	**33.45**	7%
	scenario 2	32.20	6%
	scenario 3	30.96	5%

Real wage position at June 2011 (%)	scenario 1	**-1.00**	7%
	scenario 2	0.24	6%
	scenario 3	1.49	5%

Going into the 2011/2012 bargaining round it is likely that Public Service Workers will have just broken even against inflation. Put another way, they will have the same (stagnant) purchasing power as they did in mid 2007.

It is therefore in this context that the COSATU affiliated Unions (SADTU,NEHAWU, POPCRU, DENOSA, PAWUSA, SADNU, SASAWU, AND SAMA) in the Public Service submit the following substantive demands:

(1) Term of agreement:

We demand a single term agreement - due to the global crisis & adverse economic conditions creating uncertainty

(2) Wage demand:

We demand a salary increase of 10% - based on Reserve Bank CPI forecast of 6.2% (cost of living adjustment) and a "real" wage increase of 3.8%.

(3) Outstanding Substantive Issues:

We demand that all outstanding substantive issues as contained in previous resolutions to be implemented in accordance with the timeframes as specified in such agreements. This substantive issues includes but not limited to :

- Medical Aid
- Housing
- Minimum Service level agreement ,
- We demand that all other outstanding matters where timeframes are not attached should be concluded and implemented within the duration of the 2011/2012 agreement e.g. long service award and danger allowance.

(4) Shopsteward Leave:

We demand that shop steward leave days should increase from the current 10 working days to 25 working days per annum.

(5) Outsourcing:

We demand that all the outsourced services to be in-sourced back into public services to develop the capacity of the state to deliver services.

(6) Child Care Facilities:

We demand child care facilities at all workplaces within the public service.

(7.) Improved working conditions

The occupational health and safety act says that it is the employer's obligation to provide a safe working environment (positive practice environment).

End