1. The public service wage negotiations commenced in October 2017, culminating in a three-year wage agreement on 8 June 2018. The wage agreement will be implemented with effect from 1 April 2018 and covers the period 2018/19 to 2020/21. The key provisions of the agreement that have direct implications for government’s budget are:

- A cost-of-living adjustment for employees on salary levels 1 to 12 and employees on Occupation Specific Dispensation (OSD) as set out in the table below.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Projected CPI inflation</td>
<td>5.5%</td>
<td>5.3%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Salary Levels 1-7</td>
<td>7%</td>
<td>CPI + 1.0%</td>
<td>CPI + 1.0%</td>
</tr>
<tr>
<td>Salary Levels 8-10</td>
<td>6.5%</td>
<td>CPI + 0.5%</td>
<td>CPI + 0.5%</td>
</tr>
<tr>
<td>Salary Levels 11-12</td>
<td>6%</td>
<td>CPI</td>
<td></td>
</tr>
</tbody>
</table>

1. CPI inflation projections provided by the National Treasury.

2. Salary Levels 1-10 includes lower management and other production staff and salary Levels 11-12 includes middle management echelon. Senior managers (salary Levels 13-16) and public office bearers are not covered by the negotiations.

- The equalisation of pay progression across the public service at 1.5% per annum. The equalisation will be implemented incrementally over the period covered by the wage agreement. Affected employees include: (i) educators appointed in terms of the Employment of Educators Act 76 of 1998 (as amended) and the Correctional Services Act 111 of 1998 (as amended); (ii) TVET lecturers appointed in terms of the Public Service Act 103 of 1994 (as amended); and (iii) members of the police service appointed in terms of the Police Service Act 68 of 1995 (as amended). Educators and TVET lecturers will receive an increase in the progression rate from 1% to 1.3% per annum with effect from 1 July 2018 and a further increase from 1.3% to 1.5% per annum with effect from 1 July 2019. Members of the police service will receive an increase in the progression rate from an average of 1.3% to 1.5% per annum with effect from 1 July 2019.

- An extension of the housing allowance to cover qualifying spouses of public servants who were excluded in the past. Previously, if both spouses were employed in the public service, only one spouse qualified for the housing allowance. The extension will be implemented incrementally over the period covered by the wage agreement. Qualifying spouses of employees on salary levels 1 to 5 will be eligible for a housing allowance with effect from 1 July 2018.
1 September 2018 and qualifying spouses of employees on salary levels 6 to 12 will be eligible with effect from 1 September 2019.

2. Estimated costs associated with the above provisions of the wage agreement are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2018/19</th>
<th>2019/20</th>
<th>2020/21</th>
<th>2018 MTEF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost-of-living adjustment</td>
<td>38 777</td>
<td>77 225</td>
<td>119 661</td>
<td>235 663</td>
</tr>
<tr>
<td>Equalisation of progression</td>
<td>395</td>
<td>1 326</td>
<td>2 636</td>
<td>4 357</td>
</tr>
<tr>
<td>Extension of housing allowance</td>
<td>407</td>
<td>1 097</td>
<td>1 200</td>
<td>2 704</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>39 579</strong></td>
<td><strong>79 648</strong></td>
<td><strong>123 497</strong></td>
<td><strong>242 724</strong></td>
</tr>
</tbody>
</table>

1. Figures presented are cumulative

3. The agreement commits government to amounts that significantly exceed the resources made available for compensation of employees in the 2018 Budget. The budget had assumed total increase in earnings of public servants would closely track inflation. It did not make provision for the substantial improvements to salaries and other conditions of service that have now been agreed to. National Treasury’s estimates of the shortfall against compensation budgets are given in the table below. These estimates could change in the outer years as inflation projections are revised.

<table>
<thead>
<tr>
<th>R million</th>
<th>2018/19</th>
<th>2019/20</th>
<th>2020/21</th>
<th>2018 MTEF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated compensation budget¹</td>
<td>587 124</td>
<td>630 454</td>
<td>677 259</td>
<td>1 894 837</td>
</tr>
<tr>
<td>Less Public Entity and Social Security Funds</td>
<td>62 625</td>
<td>67 344</td>
<td>73 633</td>
<td>203 602</td>
</tr>
<tr>
<td>Departments¹ Compensation budget²</td>
<td>524 499</td>
<td>563 110</td>
<td>603 626</td>
<td>1 691 235</td>
</tr>
<tr>
<td>Less SMS, public office bearers and other adjustments³</td>
<td>37 840</td>
<td>39 693</td>
<td>38 980</td>
<td>116 513</td>
</tr>
<tr>
<td>Available Non-SMS budget³</td>
<td>486 659</td>
<td>523 417</td>
<td>564 646</td>
<td>1 574 721</td>
</tr>
<tr>
<td><strong>Available Non-SMS Budget growth</strong></td>
<td><strong>32 594</strong></td>
<td><strong>36 759</strong></td>
<td><strong>41 228</strong></td>
<td><strong>110 581</strong></td>
</tr>
</tbody>
</table>

**WAGE AGREEMENT IMPLICATIONS**

<table>
<thead>
<tr>
<th>R million</th>
<th>2018/19</th>
<th>2019/20</th>
<th>2020/21</th>
<th>2018 MTEF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-SMS Budget Envelope</td>
<td>32 594</td>
<td>69 353</td>
<td>110 581</td>
<td>212 527</td>
</tr>
<tr>
<td>Less Wage agreement cost</td>
<td>39 579</td>
<td>79 648</td>
<td>123 497</td>
<td>242 724</td>
</tr>
<tr>
<td>Cost of living adjustment</td>
<td>38 777</td>
<td>77 225</td>
<td>119 661</td>
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<tr>
<td>Extension of housing allowance</td>
<td>407</td>
<td>1 097</td>
<td>1 200</td>
<td>2 704</td>
</tr>
<tr>
<td><strong>Estimated Wage Agreement (Shortfall)/Surplus</strong></td>
<td><strong>(6 985)</strong></td>
<td><strong>(10 295)</strong></td>
<td><strong>(12 916)</strong></td>
<td><strong>(30 197)</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>R million</th>
<th>2018/19</th>
<th>2019/20</th>
<th>2020/21</th>
<th>2018 MTEF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revised Non-SMS budget⁴</td>
<td>493 644</td>
<td>540 698</td>
<td>594 842</td>
<td>1 629 184</td>
</tr>
<tr>
<td><strong>Revised Non-SMS Budget growth</strong></td>
<td><strong>39 579</strong></td>
<td><strong>47 054</strong></td>
<td><strong>54 144</strong></td>
<td><strong>140 778</strong></td>
</tr>
</tbody>
</table>
1. Budget consists of national and provincial government, public entities and social security funds
2. Budget consists of national and provincial government departments
3. Budget consists of national and provincial government. These figures are estimates and may differ from departmental schedules
4. Available non-SMS budget plus estimated wage agreement shortfall
5. Other adjustments refers to baseline shortfalls not attributable to the wage agreement

4. Government remains committed to compensation ceilings presented in the 2018 MTEF. Government has indicated on several occasions that a wage agreement that departs significantly from inflation would need to be accommodated within announced expenditure limits, failing which such an outcome could have adverse consequences for the composition of public spending and possibly service delivery. Government will actively manage the current situation to ensure that adverse consequences are kept in check.

5. Increased pressure on compensation budgets calls for cost containment measures to ensure that the wage bill remains within the existing compensation ceilings. Several options are under consideration to address the additional cost of the new agreement, as announced by the Department of Public Service and Administration. These include the updated employee-initiated severance package (EISP) and early retirement to encourage qualifying public servants to exit the public service. This will provide government an opportunity to free up certain high earning positions and provide scope to absorb more youth into the public service.²

6. Other cost containment measures being considered include review of performance management and incentive systems, and centralising of job grading and evaluation, amongst others. Full details on these measures and implementation considerations will be communicated by the Ministry for the Public Service and Administration. As far as possible, these measures will be crafted and implemented in a manner that limits adverse impact on service delivery.

Issued by National Treasury
22 June 2018

² Annexure B of the 2017 Medium Term Budget Policy Statement provides details on headcount and earnings growth trends over a 10-year period