



Wages baselines

- **Importance of wages baselines being realistic**
 - To identify fiscal pressures and assess overall fiscal space
 - No policy change approach – consistent with other spending



Wages baselines – general approach

- **Set baseline**
 - Compensation of employees
- **Identify one-offs**
 - Elements of existing budget that were agreed as one-offs and will not continue without a further decision
 - Specific projects



Wages baselines – general approach

- **Projects growth on no policy change approach**
 - **Employments levels**
 - Generally hold constant
 - Project increase only where necessary to maintain existing level of service
 - eg increase in teachers if student numbers forecast to rise

Wages baselines – general approach

- Wage increases
 - Those provided in existing agreements
 - Where agreements due to expire
 - Government policy position or negotiating position, if clear
 - If unclear, realistic assumption linked to economic parameter
 - Wage drift due to promotions and ageing of the workforce



Wages baselines – general approach

- **Include future impacts of policy decisions that are not included in the base**
 - Recent policy decisions that have not been fully implemented eg a decision to increase police numbers



Wages baselines – level of detail

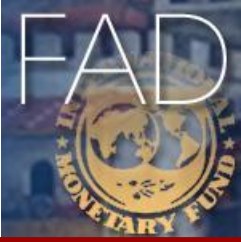
- **The level at which the baselines are best prepared depends on the compensation setting processes within government**
 - If compensation setting is set at an agency or ministry level, with common terms and conditions, it can be done at that level.
 - However, if compensation setting is more fragmented, such as by type of employee, a more disaggregated approach may be required.



Wage baselines – projection assumption

- **Considerations**

- Recent experience
- State of the labour market
- Starting point (default) for decision making
- Nature of budget approaches
 - Supplement ministries for wage increases?
 - Alternatively, set level of wage bill adjustment and require agencies to achieve savings if actual wage increases are greater



Presentation of wage baselines

- **The presentation of wage baselines can be a difficult issue**
 - Inclusion of estimated wage growth is necessary to prepare realistic estimates of expenditure
 - However, information on future wage changes can also tip the government's hand in negotiations with public sector unions.

Presentation of wage baselines

- **There are advantages in including future wage increases in line agency baselines where it is used to manage expectations**
 - This mainly occurs when government's have a policy of restraining wage growth.
 - South Africa provides for adjustment according to inflation, with any additional wage growth to be met from savings measures.
 - Australia provides for only modest wage increases (equivalent to the increase in the minimum wage)

Presentation of wage baselines

- **An alternative approach is to include a provision for future wage rises in a contingency reserve.**
 - the provision would ensure that the baselines for aggregate expenditure are realistic
 - the provision would not be transparent to line ministries and the public



Presentation of wage baselines

- **Using the contingency reserve approach, budget appropriations and forward estimates would be based on current wage rates.**
 - These would be adjusted once wage increases were settled
 - There would be a corresponding reduction in the contingency reserve
- **The contingency reserve could be calculated using macroeconomic forecasts for wages, or based on the governments expected outcome for wage negotiations**