Public service pay – how high should the Government go?

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As the two sides considered their respective positions following last week's adjournment of talks on a revised public service pay deal, we look at the salient issues that have emerged in this national-level engagement.

Last week's adjournment of WRC-facilitated talks on public service was akin to blowing the whistle for half-time. While the trade union side expressed disappointment with what the government negotiators had put on the table, to most observers the unions had established a good lead before the resumption of talks.

One seasoned trade unionist IRN spoke to described the offer as "not bad at all". Those on the outside looking in, would tend agree with this basic assessment.

With 5% "banked" how much more can the unions get?

After a one per cent rise under the current Building Momentum agreement was paid in 2021, this left two phases to be paid this year: the 1% sectoral bargaining element due from February 1 (this feature of the agreement rarely gets mentioned in media coverage) and a final 1% increase on October 1, 2022.

What this means is that when the two, 1% agreed rises for 2022 are added to the government side's offer of 2.5% this year and 2.5% next year, the total percentage (incorporating what DPER offered) over 2022/2023, comes to 7%.

(This excludes the 1% already paid in 2021. If added this would bring the total 'offer' up to 8%, over 36 months).

The question for the union negotiators, led by Fórsa's Kevin Callinan, is can they build on that total in the coming days?

One thing is clear – there is no going backwards. And the Tánaiste, Leo Varadkar, in comments he made earlier this week, effectively acknowledged that an improved offer in some form would be on the table when talks resume.

In so doing, he can't have endeared himself to Michael McGrath, the Minister for Public Expenditure & Reform.

PAY COMPARED

As things stand, the government side's "supplementary" offer (the union side's description) of two, 2.5% rises this year and next, would mean 4.5% would be payable this year.

As the unions have correctly pointed out, however, the timing of the payment means that 4.5% would be payable for just a portion of this year. But it would roll over into 2023 and beyond.

Nonetheless, it is worth comparing this offered percentage (4.5%) to the sort of deals that we have been witnessing in the private sector in 2022.

At the higher end, there have been rises of up to 4% in the main banks.

In the multinational sector, the current WRC proposals in the Bausch & Lomb dispute (see *News*), stand at 3% in respect of 2021, 3.5% for this year (2022) and 3.25% for next year.

More directly related to the public service, over 8,000 ESB workers recently voted to accept a total rise of 8.25% (8.5% cumulatively), to be phased over 36 months as follows: 3.25% - 2022; 3% - 2023; and 2% - 2024.

Against these private sector and commercial semi-state deals, the offer of a total of 4.5% over the course of this year, even if most of the hike won't apply until October (followed by 2.5% next year), looks "not bad at all", as the trade union source quoted earlier said.

At "half time" in these talks, this isn't a bad place for the unions to be.

HOW MUCH?

So, how far can the Government go? The extra pay offered thus far comes to around €1.2 billion more than the existing Building Momentum commitments. All of these pay rises would apply on an ongoing basis.

However, it is possible that as in previous deals (including Building Momentum) some of the rises could be weighted in favour of the lower paid.

There is also the option of lump sums on a once-off basis. The attractiveness of such a move is self-explanatory – once-off rises are just that, they would not add to the ongoing pay and pensions bill.

But vouchers of the sort offered in many private sector deals would be problematic, because while a private sector firm can select a voucher outfit, the Government couldn't do so without putting the whole effort out to tender.

It is possible, however, that lump sums favouring the lower paid could be used to "clinch" a deal.

BENEFITS – THE HOURS

An additional benefit for public service workers this July 1 will be the elimination of the so-called 'HRA hours', restoring to the vast majority of public servants the hours they worked prior to the 2013 Haddington Road Agreement.

The Government accepted the report of the Independent Group headed by Kieran Mulvey to introduce a maximum 35-hour week for most public servants from July 1. Many will benefit from this switchback.

Nurses, for example, will see their hours brought back from 36.5 to 35 hours – a gain of one-and-a-half hours in time.

However, given that many in frontline public healthcare must continue to work their existing hours to keep services running in the short-term to medium term, these hours will now have to be paid for – a not insignificant income gain at a time when inflation is rising.

Other benefits include the tax-free pandemic recognition payment for over 100,000 health care staff. While administrative glitches have held up these payments *(see IRN 23-2022)*, the HSE and some of the voluntary hospitals have finally begun to roll them out at a faster pace.

STAGFLATION FEAR

DPER officials may have entered the talks with a bottom line, but they know from experience that the political side – the Government – can undermine that stance. In the context of a cost-of-living crisis, there is severe political pressure on the Government to "pay over the odds".

If the war in Ukraine continues and energy and food costs continue to rise in the short-term as a result, combined with rising interest rates, fears of a recession can only grow.

These challenges come on top of ongoing problems in housing and health – as well as the continued requirement to spend on necessary infrastructure.

If recession is the outcome of largely malign external forces, this could eventually mean the resurrection of a problem that hasn't manifested itself (Covid-19 aside) for some time: unemployment.

Such a development could, in turn, see the arrival of that dreaded scourge of the 1970s: stagflation.

This is something that all of the social partners should, and will, want to avoid. Were that to happen, this would mean zero to very low growth, continuing inflation, higher interest rates and rising unemployment – a deadly combination last seen in the mid-1980s.

This is a grim scenario, one hard to image at this time of still relative prosperity and a continued healthy tax take, with our current, historically high level of employment.

But it is avoidable if there are manageable pay rises, a degree of consensus on overall taxation levels, welfare rates and maintaining public investment. Such longer-term investment over current spending has been repeatedly emphasised by the ESRI.

MODERATION REMAINS ESSENTIAL

If the Government side concedes more than the 7% on the table in the current public service talks for this year and next, then it could seek to ensure a commensurate return in productivity (in evidence in some key areas of the public service during the pandemic) and industrial peace (sometimes not achieved under recent agreements). The Tánaiste alluded to public service “efficiencies and improvements” this week.

Moderation remains essential if the Government is to afford support services, like ICTU’s sought-after social wage benefits, such as affordable childcare and improved benefits for the most-in-need.

The current administration needs to ensure that the country doesn’t fall back into the trap of a managing well in a crisis, but wasting the benefits of economic success.

The outcome of the pay talks can’t be separated from a necessary consensus between social partners on crunch social, economic and fiscal goals.