

# Grading and wages

**O**n 1 July 1996 the government, with the agreement of the public sector unions, implemented a new grading system for public service employees. The system, which was to be implemented in three phases up to February 1999, was the product of extensive and volatile negotiations between 1994 and 1996.

Government maintained that the new grading system was an instrument which would contribute to the overall transformation of the public service by:

- making grading and pay systems more equitable;
- ensuring greater career progression, particularly for lower level workers;
- introducing elements of performance management into the system, thereby improving service delivery;
- reducing the wage gap;
- simplifying the administration of the system and wage negotiations;
- ensuring greater cost effectiveness.

Public service employees did receive substantial wage increases, but few of the other objectives have been met. While it appeared that the unions had won a major victory, in reality nothing changed for their members.

The increase is likely to be eroded in the future because proper calculations on the state's ability to pay for the new system were not done. The downsizing exercise which was expected to pay, in

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large part, for the increases has been a failure.

## Background

A comprehensive and radical overhaul of the grading system in the public sector was long overdue. The old system was immensely complex. It was hamstrung by frustrating bureaucratic rules and administered by managers and officials whose decisions were often arbitrary. Competence was rated less important than qualifications, racial or ethnic background, or loyalty to government policy.

For the predominantly black workforce concentrated in low-skilled, low-wage jobs, the system was extremely discriminatory. There was no recognition of the non-formal skills they had acquired and applied in their jobs. Barriers to their promotion to higher positions were set firmly in place. Huge disparities between their earnings and those in higher positions were entrenched.

According to research conducted by Naledi, in 1995, when the negotiations began, 26% of public sector workers earned less than R1 400 per month. Seventy two percent took home less than



R3 300 per month. Only 1% enjoyed monthly salaries of more than R8 300 per month, with the very top levels on salaries of above R25 000 per month. The wage gap between the lowest and highest paid was 20:1.

### Union position

The major pressure for change came, understandably, from the unions representing the lowest paid (and black) sections of the workforce - NEHAWU, SADTU and POPCRU. Influenced by the human resource policies of their federation, COSATU, these unions demanded a skills-based grading system which:

- used the identification and recognition of skills (or competency) as the only criteria for grading jobs and promoting workers;
- involved the broad banding of many different jobs into similar skills categories;
- had the objectives of closing the wage gap between different occupational categories by establishing fixed wage relativities between each grade based on a benchmark rate linked to a formally qualified person;
- created opportunities for career path advancement, either through skills acquisition or recognition of prior learning;
- offered the potential for improved labour market mobility (and thereby greater employment security) by establishing grades that were linked to national competency standards recognised by other employers;
- put training and skills enhancement at the centre of wage bargaining;
- facilitated the need for change in work organisation and job redesign to create more interesting, varied and fulfilling jobs.

### State initiative

Due to the alliance between the ANC and COSATU, the new government was more receptive to these demands. Indeed, the new grading system was developed and tabled by the government, not the unions, in part due to the involvement of former NUMSA official and the then Deputy Minister for Finance, Alec Erwin.

Erwin's primary objective was not to evoke sympathetic responses from old union allies. Instead, as he said at a business forum meeting in mid-1997, his purpose was to "create a viable and competent public service with the appropriate incentives of career paths and training that would have the capacity to implement ANC government policy through the delivery of improved services and assistance programmes". This vision was underpinned by the government's commitment to the objectives of the RDP - improving human rights, reducing poverty, improving human resource development, creating jobs and providing basic needs and social services.

The 1995 White Paper on the transformation of the public service notes that "the development of an efficient, productive, honest and well motivated public service" is based on improving pay and employment conditions.

It puts forward a number of measures to achieve this, including:

- an adequate minimum wage;
- equal pay and benefits for work of equal value;
- the reduction of pay and benefits differentials in line with international norms. To ensure fiscal discipline, this was to be achieved through significant raises at the bottom of the scale and restraint at the top. Increases were to be linked to training and productivity;
- the development of appropriate career paths for all public servants, together



with new criteria for hiring, grading and promotion;

- the reduction in the number of grades;
- improving conditions for women through the repeal of discriminatory practices;
- improving conditions for people with disabilities.

The ANC government also had other reasons for a new grading deal. Abolishing the old system came to be represented as a symbolic dismantling of a key apartheid institution. In addition, the government inherited a huge fiscal problem.

Government expenditure accounted for 34% of GDP, with a deficit of 6,8%. The new government committed itself to reducing the deficit to less than 4% within three years. It faced a real dilemma as to how to achieve this target. On the one hand, it needed to increase capital spending to fund social and economic development. On the other, it had to reduce the overall size of government spending.

Achieving fiscal targets depended on reducing recurrent spending - that part of government expenditure which includes funds for the public service wage bill and social services. In other words, there had to be job cuts and wage restraint. The urgencies of these measures was underscored by the re-incorporation of the TBVC states into South Africa. This expanded the size of what was perceived as a bloated public service.

It was in this context that the Minister for Public Service and Administration announced a three year plan for shedding 300 000 public sector jobs in 1996. It was understood that the new grading system would be paid for out of this exercise.

## **GEAR**

Two months after the completion of the negotiations in April 1996, the government announced its new macro-economic

strategy. GEAR has this to say about the public service: "Careful management of the overall government wage bill is central to the fiscal strategy. In implementing the three-year public service salary adjustment and rightsizing programme, affordability considerations, maintenance of public services and macro-economic consistency are paramount."

## **Decentralisation**

Government also saw the need to simplify administration systems and give greater autonomy to individual departments in making decisions on selection, recruitment, performance appraisal and promotion. Existing practice is governed by a set of rules called the Personnel Administration Standards, whose requirements are rigid and cumbersome. While some national departments have taken up the challenge of transforming top management, they have had to side step these guidelines.

## **Standards**

As an employer, the government is guided by the obligation to apply to its employees the principles, standards and conditions of employment it seeks to encourage private sector employers to adopt. The government has promoted, through various policy and legislative measures, massive investment in human resource development. The Department of Public Service and Administration has committed itself to competency based training in the public service.

These are the factors which provide a benchmark against which to assess the new grading system.

## **The agreement**

The new grading system, which was agreed to on 19 April 1996, provides for 16 salary ranges, broad banded into six salary categories:





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Salary level	Category
1-2	lower skilled
3-5	skilled
6-9	highly skilled production
10-12	highly skilled supervisory
13-14	management
15-16	senior management

Nineteen salary structure groups and sub-structures groups are spread across 329 new occupational classes. Transfer to each grade/salary structure is based on qualifications.

The new salary scales, which were due to be phased in by 1999, set an average difference between each notch of 4,75%. The difference between the minimum level of each grade will be 20,1%. The difference between the maximum of the preceding grade and the minimum of the next grade is set at 9,7%.

All staff were to be transferred to the lowest notch of the relevant grade, provided they received at least a 7,5% increase.

Overtime benefits were equalised. The

overtime ceiling was removed and all overtime worked will be paid.

Occupational specific allowances were reduced and limited to danger, standby, separation and allowances for specific categories of staff.

The agreement also covered the rightsizing of the public service, a voluntary retrenchment package, the implementation of the grading system and the restructuring of pension benefits. Staff were slotted into the grading system from 1 July 1996. The consultants KPMG were hired to evaluate whether staff were correctly located.

### Financing

In order to pay for the new system, government agreed to set aside three sums of money for three consecutive years. It allocated R7,1-billion for 1996/1997 and R6,5-billion for 1997/1998 and 1998/1999. Further supplements up to a maximum amount of R11,3-billion, achieved through downsizing, would be made available.

Currently, the government has set aside



R4,8-billion to finance improvements in conditions of service for 1997/98, which covers the real amount needed for only the eight month period from July 1997. How much of this will be topped up from savings is still the subject of negotiations.

The agreement also contains a safety valve for government: "...if unforeseen circumstances, which have severe negative implications for the economy of the country, occur, the state as employer may be compelled to revisit its offer".

To what extent can the parties to the three-year agreement claim that their objectives have been met? Will the new grading system result in higher wages and a closing of the wage gap? Will the new system recognise workers' skills and re-grade them to new, more appropriate levels? Will it provide access to new career paths, skills and training?

Can government, for its part, be sure that the new measures enhance and promote better service delivery? Will they result in more flexibility and simplicity in administration? Will they enhance performance appraisal? Above all, will they be affordable?

## **Wages**

The 1996 agreement will probably be recorded as the single largest ever wage increase in South African labour history.

In percentage terms, the largest increases went to the lowest paid employees. Grade 1 workers received 29,5%. Grades 2-6 received more than 35% and Grade 5 got a whopping 51,2%.

During the negotiations, government released projections of the possible increases over the three year period of the agreement. The wages of lower level employees would increase by 76%. Grade 5 workers would get 114%. It looked as though the unions had scored a five star 'wage jackpot'!

In real terms, however, the biggest gains went to the professionals and senior management. For 1996/97 Grades 12-16 received actual wage increases in excess of R32 000 (compared to R3 900 for Grade 1). Over the three-year period, Grades 7-10 were projected to receive a R30 000 increase. Grades 14-16 were to get R100 000, while Grade 1 increases were projected at only R9 000.

The second and third year salary rates were projections made by government. They were subject to rightsizing targets being reached. The state has not been able to meet these targets and is currently revising its salary levels downwards. Not surprisingly, this has led to disputes, particularly with NEHAWU.

## **The wage gap**

A major objective of the new system was to close the gap between the lowest and highest paid public servants. In 1995, prior to the new agreement, the gap was 20.1. In 1996 it closed to 17,75:1, and was projected to close further to 15,47:1 by 1998.

This appears to be a significant improvement. However, when comparisons are made, there is almost no difference. The gap between Grade 1 and Grade 15 (deputy director general) only decreased from 13:90 in 1995 to 13:63 in 1996. The picture gets worse when comparing the middle grades to the lower grades. For example, the gap between Grade 12 (senior professional occupations) and Grade 1 actually increased in 1996 from 7:90 to 8:16.

## **Career pathing**

Under the previous system, career paths did not exist for lower level employees. They had little or no access to training and could therefore not be promoted to jobs which required higher formal qualifications.

The new system does not change this



position significantly. Many grades are contingent on workers acquiring an educational qualification. In fact, lower level workers are effectively blocked from getting a promotion beyond Grade 3, unless they improve their education.

### Notch increases

In the past, different grades (salary scales) had different numbers of notches. The number of salary notches on the salary scale differed by occupational class. This was based on the presumed time it would take for a worker to become competent in a job. Workers at the lowest levels were only able to move through two or three notches, while staff at higher levels had as many as 15 notches. Progression was based on length of service.

The new system standardises the number of notches per salary scale to three. It is meant to ensure that all employees have access to the same number of salary increases. Employees will move through the notches according to experience, skills and "other appropriate attributes of value to the organisation". The decision on whether to grant an increase will be made at departmental or provincial level and is supposed to be based on a performance appraisal system. The Department of Public Service Administration (DPSA) has provided guidelines for granting increases.

A major problem is that, in order to keep costs down, the state has arbitrarily stipulated that only 15% of staff can be given notch increases each year. Furthermore, the increases are to be financed by departments and provinces. This means that they will be inconsistent across the public service.

The reduction in the number of notches reduces the scope for salary progression. KPMG has recommended an increase in the number of notches for all

grades. These recommendations are still being considered by the negotiating parties.

### Performance appraisal

Theoretically, notch increases were expected to be based on performance appraisals. However, the system for evaluating performance in the public service is extremely arbitrary.

Public service employees are expected to keep 'incidentation' reports, in which they list all incidents which they feel qualify them for promotion and recognition. At the end of the year, their supervisor groups the 'incidents' under four headings:

- job performance,
- knowledge,
- interpersonal relations,
- leadership ability.

These factors are then further sub-divided. Personnel who are not in leadership positions are not evaluated on their leadership ability.

For each element, people are graded on a score of one to six. The supervisor motivates for or against the promotion of an individual to an internal departmental committee, which decides whether or not the person is to be promoted.

The system leaves the door wide open to subjective perceptions (such as racism or sexism). There is no mentoring and very little scope for improving performance. Overall, it is bureaucratic, ineffective and demotivating.

While it was agreed, with the implementation of the new system, that all employees would be evaluated in the same way, it appears that evaluations are still occurring only at clerical, supervisory and management level.

The negotiating parties are currently considering new performance appraisal systems.



## Training

The agreement gives no commitments on training. This is a major problem, as skills and competency are the main criteria by which workers should be graded in a skills based grading system. However, the new grading system is still primarily based on qualifications rather than skills.

The training which is currently on offer is directed at management and professionals. Lower level employees have little or no access to training.

Similar problems exist with regard to selection and recruitment. The emphasis is on formal skills rather than on the recognition of experience gained on-the-job. The unions do not appear to have placed any specific demands for training on the agenda.

## Administration

Government sources claim that the new grading system will be much easier to administer than the old one. There certainly appears to be an improvement in the administrative management of the system. However, there are still 329 occupational classes and approximately 1 500 post classes. The process of transferring people from the old to the new system took a long time. The system is clearly still too cumbersome and bureaucratic.

## Service delivery

The agreement makes no reference to service delivery. Nor does it commit the parties to a process to link the new grading system to delivery through commitments to re-consider, for example, the re-organisation of work, flexible working hours or the re-design of jobs. The opportunity for transformation was effectively scuttled by the short-sighted objective of rightsizing, which has no regard to how a range of services, encapsulated in the RDP, were to be extended to previously disadvantaged

communities. The new grading system bears very little resemblance to the type envisaged by either government policy documents or the COSATU unions. In its current form, it will have very little impact on changing work organisation, improving service delivery or promoting training and career development for public service workers.

The system has certainly delivered short-term concessions. The COSATU unions primary interest was a generous wage deal. The staff associations sought private sector parity for their members. The state needed union consent to a radical restructuring exercise that also entails massive job loss.

The wage increases for lower level workers were a victory for the COSATU unions. The biggest winners were, however, the staff associations, whose members received massive increases.

In the fairy tale, the emperor parades an imaginary set of new clothes. An imaginary grading system has been paraded, clothed in the rhetoric of 'broad banding' and 'skills-based'. But it does not substantially differ from the old. The good intentions of both unions and the state were lost in the negotiating process.

During the second half of 1997, and beginning of 1998, a number of initiatives were launched which could lead to further changes. These include changes to the PAS system, work re-organisation and proposals for a new performance appraisal system. However, negotiations on a skills-based grading system, linked to work reorganisation, training and service delivery, should be re-opened. Until this is done, lower level workers will have no chance for advancement in the public service. ★

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