Matt Cooper: A one-size-fits-all public sector pay deal no longer makes sense

Matt Cooper November 19, 2023
14–18 minutes

Pay deals involving the government always get done eventually. This should be remembered as the posturing by ministers and unions intensifies over the coming weeks about a new public sector pay deal and we get breathless statements about the potential for "failure".

Much will be made about the lack of time available, with just six weeks left to the end of the year in the hunt for a successor to the 'Building Momentum' agreement which expires on December 31. Already, both Paschal Donohoe, for the government, and Kevin Callinan, from trade union Forsa and the Irish Congress of Trade Unions (Ictu), are jousting publicly, albeit very politely.

But if we take it that eventually they'll come to some form of agreement, the questions remain as to what sort of deal will be done, how much it will cost and whether it will be agreed before we pass into 2024. And as to how the public assesses it. The point about timing might not matter too much, as any agreement can be backdated to January 1 no matter the point at which it is reached in 2024.

There's also, for the government, the not inconsiderable matter of how many of the 340,000 people to whom it will apply – almost all of them voters – will react. If it is favourably, they may offer thanks by way of votes in the European and Local elections of next June and the General Election that will follow within six to eight months of that. If it's not, there may be votes lost. Or it may well be that there's no point in trying to buy votes in the public sector – as would have happened in previous generations – because whatever is offered simply won't budge voting intentions already held.

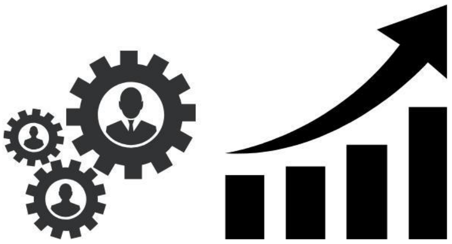
The numbers

340k

people employed in the public sector

€20bn

total pay bill for public sector workforce



€1bn

in government spending which would be added by a 5 per cent public sector pay increase

The government also has to consider the reaction of the private sector to the spending of the public's money on pay for those employed by the state, especially when the vast majority of people don't work for the state.

It's one of the reasons why public sector pay talks no longer get the attention they once did: the proportion of all those employed who work for the state continues to fall. Total employment grew from 2.158 million in 2016 to 2.555 million in mid-2022, which puts the 340,000 in the public sector into context as having less significance than enjoyed previously.

But they still remain very important, for many reasons: there is the provision of essential services and there is the ongoing cost to the exchequer in funding employment to provide those services, especially in health, education and security (both garda and defence forces).

READ MORE

The pay bill to the state for its workers comes in at about €20 billion – not too far short of a quarter of the state's tax revenues. Donohoe has reasons to fear that the exchequer surpluses that we have come to expect are not permanent, especially given the shortfall anticipated in corporation tax receipts over recent months and the uncertainty for the future.

A 5 per cent pay increase adds about €1 billion in government spending, not just for 2024 but for each year afterwards. He does not want to increase that and add permanently to the cost of running the public service.

"Any agreement has to be appropriate to the context the country is currently facing and must be sustainable in the face of considerable global uncertainty – both economic and geopolitical," Donohoe said last week.

While this is true, the unions are entitled to argue that if not now, then when. Throughout the good times, they were encouraged to moderate claims to keep Ireland competitive. But now that things are tougher for their members, why would they be left to feel the pain?

Filling gaps

Donohoe also knows that he needs to fill gaps in the system, that many essential jobs are going unfilled because the pay doesn’t seem attractive for many potential applicants. It is another consequence of the almost full employment economy: the state can be outbid by private sector money as people are less impressed by the permanency of public sector jobs.

He also has to allow for improved wages and working conditions to prevent a further haemorrhage of key staff – a major problem for the public sector at present.

Another incentive for Donohoe is to avoid strikes in the public sector. Any disruption to essential services is to be avoided in the run-up to an election. While strikes are not always supported or popular – especially among private-sector employees who believe, rightly or wrongly, that the public sector is cosseted with their money – all voters want teachers for the schools and nurses and doctors in their hospitals, and social workers and therapists and others to provide essential services, and want to see them paid appropriately for their work.

Donohoe’s delay in inviting the unions to talks is somewhat surprising, but may be an indication that things have moved slowly to date in the so-called “talks about talks” that always proceed the formal negotiations (which Donohoe wants to take place at the Workplace Relations Commission).

There is no guarantee that an agreement will be brokered that covers all of the public sector uniformly, and that is where things might act out differently to what we’ve become used to seeing

An overall deal is much easier to administer for the government, as well as providing far more financial certainty. Flexibility for sectoral deals in addition opens up the potential for having to open the government’s cheque book repeatedly. It also does away with one of the rationales for the introduction of the Department of Public Expenditure and Reform in 2011, which was to have more rigorous state intervention in the spending of its money.

However, there is no guarantee that an agreement will be brokered that covers all of the public sector uniformly, and that is where things might act out differently to what we’ve become used to seeing.

There is no requirement that there must be an all-in-one public sector pay deal. Remember, there were decades where we had annual negotiations for – and blanket media coverage of – a national pay deal, to include both public and private sectors, until this was no longer deemed useful. We may be reaching a stage where one deal to cover all the workers in the public sector is not appropriate either.

Some of the 19 trade unions affiliated to Ictu may decide that their position deserves separate – and what they would see as better – treatment to that which arises under a collective arrangement. That might apply particularly to those sections where it is proving far more difficult to retain and attract necessary employees, with professions like teaching and nursing immediately coming to mind.

Flexibility

This is why Kevin Callinan of Forsa told me last week that the unions are seeking “sufficient flexibility to address issues affecting specific groups of workers”. He has complained that Donohoe’s department is “currently preventing the normal operation of the voluntarist system of industrial relations”. That implies that any collective deal would allow for additional negotiating in sectors.

The central factor that will define the talks is compensating workers for cost of living increases. Inflation may be moderating – in that prices are not going up as quickly as they were – but the cost of living is still becoming more and more expensive, and the higher prices of goods and services are not necessarily covered by after-tax income increases.

It’s worth remembering what Michael McGrath, the finance minister, said during his budget speech: “I expect living standards will improve for most in the next 12 months with incomes increasing faster than the rate of inflation.”

For that to happen, there must be pay increases by all employers. Callinan believes that lower inflation forecasts and recent budget measures will not close the gap between wages and prices that has developed.

One of the problems for everyone in the talks is calculating the cost of living pay increases that should be granted. The previous collective deal was far too unambitious in the staged pay increases it agreed, but the government topped up the payments along the way when inflation soared unexpectedly. The problem, however, is that those additional payments did not fully compensate workers for the increased cost of living.

It is difficult to provide a uniform figure – as some of the increases were weighted at the lower paid – but the union movement is suggesting that for most of its members only about half of the cost of living increases were covered. The government may argue that it made €600 in payments to households to cover higher electricity bills – and will add another €450 in payments over this winter – but that will only go so far in mollifying the unions.

They want a catch-up to compensate for inflation outpacing public sector pay increases of recent years, as well as further increases to cover the anticipated inflation rate for 2024 and subsequent years, covered by any agreement.

It’ll be a heck of an achievement if it’s all done by year end.

Matt Cooper: It will be an incredible achievement if the government can strike a new public pay deal by the end of the year. Picture: Fergal Phillips

Sick pay and minimum wage increases

On Friday, junior minister Neale Richmond announced the enactment of legislation that will give employees (other than the self-employed) an annual entitlement of five sick days instead of three from next year. From 2026, it increases to ten days.

It is great for the employees – and it has to be trusted that it will be used honestly rather than as an effort by some to have a couple of extra duvet days – but it has to be questioned as to how much thanks voters will give to the government for the introduction of such non-pay measures . . . and even for the introduction of an additional public holiday in February.

It is not necessarily something that gives pleasure to employers, either. The additional sick days are just one of a combination of measures that threaten to undermine the profitability – or increase the losses – of many small businesses in particular.

A hairdresser I know is closing her outlet in Dublin before Christmas because of the rising costs being imposed upon her by legislation. Of particular concern is the statutory requirement from the middle of next year to administer auto-enrolment for a pension scheme and contributions for employees.

That, added to the return of the VAT rate to 13.5 per cent from the 9.5 per cent that applied to the hospitality sector, and the cost of light and heating, has eroded already thin margins. The government supports on offer are simply too cumbersome to navigate and do not provide sufficient compensation for the extra costs of doing business.

Added to that is the increase in the minimum wage from €11.30 to €12.70 from January 2024, and then again to €15 by 2026. That has knock-on effects on all wages that rise in unison.

This newspaper reported recently a calculation by RGDATA – which represents retailers – that government measures to help workers will add €4,200 per employee to the annual labour costs of Irish retailers.

That is why the private sector will watch the extent of the generosity of the government towards its public sector workers keenly.

Callinan told me last week that inflation to date has not been driven by increased wages but, to a large extent, by corporate profiteering. He spoke of the massive profits being made by big companies, which is true of many – as emphasised by the corporation tax returns, up until recently at least. But there can be a big difference between the profitability of big companies and that of the small . . . and their subsequent ability to make big pay increases.

It was noted last week the massively profitable Bank of Ireland struck a deal for a pay increase of 4 per cent but added in bonuses on top of the guaranteed amount – and it also threw in free private health insurance for all employees.

The latter is something that the public sector very obviously can't match – and which many companies in the private sector can't offer their employees either.