# South African Policing Union

# National Union of Public Service and Allied Workers

# Professional Educators Unions

**Research report regarding:**

- **Effects of Collective Wage Agreements**
- **Impacts of non-implementation**
- **Effect of bloated Wage Bill**
- **Effects of Economic Uncertainty**
- **Practical Effects of Proposals**

Table of Contents:

## 1. Introduction

The South African Policing Union was asked to submit a response regarding the upcoming wage negotiations applicable for the next wage increase cycles.

We have taken extreme care to ensure that our view regarding the aforementioned is based on extensive research, confirmed by several different scenarios analysis which will form part of our proposals towards the negotiations.

We have investigated several aspects of the broader economic considerations which must be considered before making an informed decision on behalf of our members. Through this report and investigations, we tried to illustrate areas of concern regarding historical agreements not abided by, the real impact of these agreements not adhered to, not only on the immediate impact of our members and their households but also crucially the severe long-term impact that these increases have on our members at eventual retirement age.

These considerations also take into account the current economic outlook and political uncertainty, it also reflects the real effect of inflation of our members financial position and illustrates how our members are becoming severely affected by rapid interest rates, medical aid increases and indicates how over time, the negative impact will be compounded if the correct decisions aren't made regarding the future wage negotiations in a properly informed manner.

We constructed several different practical examples on real life matters applicable to most of the population or work force, and what influence these aspects have in their personal lives, should it not be attainable due to below average annual salary adjustments.

We also investigated the current situation regarding the Public Service Wage Bill compared to the total Public Sector Wage Bill, which in our opinion our members contribute in a much lower proportion to the total wage bill compared to the other Public Service Professions.

## 2. South African Policing Union – Areas of Concern

- **Previous Collective Wage Agreement and effects on employees**

The South African Policing Union have thoroughly investigated the effect of the following Collective Wage Agreements concluded between the parties,

a. Resolution 1 of 2018
b. Resolution 1 of 2021
c. Resolution 2 of 2023

We refer to Annexure A reflecting the current salary notch scales applicable as per the Public Service Act remuneration models. All calculations and models were based on the actual annual increase rates provided by the aforementioned resolutions and correlated with the data provided by contents of Annexure A.

The purpose of this section is to illustrate what the real effect is on a member who was employed at the time of these resolutions being implemented. We have done simulations and models based on the actual data and agreements adhered to, but this also includes the agreed increases not followed through in the applicable year of the increase due.

It is important for us to reaffirm the importance of a simple annual increase not adhered to and the drastic impact that this can have on a member, not just as an immediate effect but on a lifetime of public service. By referring to Annexure D provided by Stats SA, the average year on year Consumer Price Index (CPI/Inflation) for South Africa dating back for the past 20 years is an annual average of 5.59% per annum.

The aforementioned is crucial to understand as the basis of the wage negotiations. This effectively illustrates that on average in any year of assessment, if the annual wage increase that an employee/member receives or does not receive, is below this percentage, it will entail that the member will be in a worse off position in real terms or purchasing power of the same remuneration package. This purely is based on the CPI statistics and illustrates the average annual increase in price of a basic basket of goods for any household.

Below extract is an illustration of the actual increases applied to the different salary levels and applicable salary ranges as set out in the Salary Notch Remuneration Model.

**Annexure A**

**Public Service Act:**

| | | 7,3% | 7,0% | 6,2% | 1,5% | 3,0% | | 4,7% |
|---|---|---|---|---|---|---|---|---|
| **Salary Level** | **Salary Range** | **2017-04-01** | **2018-04-01** | **2019-04-01** | **2021-07-01** | **2022-04-01** | **2023-04-01** | **2024-04-01** |
| 1 | 1 | 83 766 | 89 631 | 95 187 | 96 615 | 99 513 | 117 438 | 122 958 |
| | 2 | 85 011 | 90 963 | 96 603 | 98 052 | 100 995 | 118 968 | 124 800 |
| | 3 | 86 298 | 92 340 | 98 064 | 99 534 | 102 519 | 120 543 | 126 672 |
| | 4 | 87 582 | 93 714 | 99 525 | 101 019 | 104 049 | 122 124 | 128 574 |
| | 5 | 88 905 | 95 127 | 101 025 | 102 540 | 105 615 | 123 741 | 130 503 |

By taking the aforementioned into consideration regarding the actual annual increase applied to the different remuneration models, including the period of defaults of agreed increases (01/04/2020), we will attempt to illustrate the severity of such a default in the agreement by extrapolating the compound effect from the current position of an employee/member till retirement age along with the real effect of inflation on the household. Please refer to Annexure B – Pensionable Salary | Actual Rates.

If we use the following assumptions of an employee (Mr. AA Client) as the basis of our model,

1. Employee aged 25 Years old, thus having a term to retirement of 40 years
2. Annual Remuneration Package of R240 000.00
3. Retirement Contributions towards GEPF,
    a. Employer Contribution - 16.00%
    b. Employee Contribution - 7.50%
4. Investment Portfolio Return - 8.00% per annum
5. No Withdrawals from Savings Pot throughout the lifetime.
6. Annual Inflation Rate - 5.59% per annum
7. Annual Salary Increase Rates,
    a. Actual Rates applied from 2018 to current as per Annexure A
    b. Future Salary Increase Rates assumed at a constant 5.00% per annum until retirement age.

Pensionable Salary - Scenario Illustrations | Actual Annual Increase Rates

| | |
|---|---|
| Name | Mr AA Client |
| Date | 15/06/2024 |
| Product | Retirement Platform |
| Financial Adviser Name | Willem J Barnard |
| Financial Adviser Code | NA |

Defined Benefit Illustration - No Withdrawals

| | | |
|---|---|---|
| Total Pensionable Salary at Retirement Age - Future Value | R | 1 539 877,89 |
| Total Pensionable Salary at Retirement Age - Present Value | R | 174 499,99 |
| Net Present Value of Retirement Profile @ 65 | R | 3 927 949,98 |
| Future Value of Retirement Profile @ 65 | R | 34 662 256,91 |

By referring to above extract of Annexure B, it indicates that the employee in our example, if all assumptions remain constant with regards to actual annual increases over the period and assumed future increases constant at 5.00% per annum, will eventually reach retirement age of 65 with,

1. Total Pensionable Salary at Retirement Age in Future Value of R1 539 877.89 per annum.
2. Total Pensionable Salary at Retirement Age in Present Value of R174 499.99 per annum.

This illustrates the severity of the agreed increases not applied along with the impact of any annual increase which is not at least in line with the average annual inflation rate target set out by Government. Effectively, any annual increase of a member/employee which does not match inflation will result in erosion of the purchasing power of the member. If the trends of the past several years continue, the compound effect that it has on a member will become irreversible and cause even more financial pressure on members.

- **Impact of non-implementation of last leg of wage agreement**

It is extremely important to illustrate the negative impact of the last leg of the wage agreement Resolution 1 of 2018, specifically regarding the agreed increases applicable for the period 01/04/2020 which was not actioned by the employer.

It was agreed that the below salary adjustments will be applied to the different salary levels for the period 01/04/2020 to 31 March 2021,

1. Level 1 to 7 - Projected CPI +1.0%
2. Level 8 to 10 - Projected CPI + 0.5% and
3. Level 11 to 12 - Projected CPI

By referring again to below extract of Annexure A as confirmation of the non-implementation over the agreed period, and by referring to below extract of Annexure D related to CPI in South Africa for the period in question.

**Annexure A**

**Public Service Act:**

| Salary Level | Salary Range | 2017-04-01 | 2018-04-01 | 2019-04-01 | 2021-07-01 | 2022-04-01 | 2023-04-01 | 2024-04-01 |
|---|---|---|---|---|---|---|---|---|
| | | 7,3% | 7,0% | 6,2% | 1,5% | 3,0% | | 4,7% |
| 1 | 1 | 83 766 | 89 631 | 95 187 | 96 615 | 99 513 | 117 438 | 122 958 |
| | 2 | 85 011 | 90 963 | 96 603 | 98 052 | 100 995 | 118 968 | 124 800 |
| | 3 | 86 298 | 92 340 | 98 064 | 99 534 | 102 519 | 120 543 | 126 672 |
| | 4 | 87 582 | 93 714 | 99 525 | 101 019 | 104 049 | 122 124 | 128 574 |
| | 5 | 88 905 | 95 127 | 101 025 | 102 540 | 105 615 | 123 741 | 130 503 |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2015 | 4,4 | 3,9 | 4,0 | 4,5 | 4,6 | 4,7 | 5,0 | 4,6 | 4,6 | 4,7 | 4,8 | 5,2 | 4,6 |
| 2016 | 6,2 | 7,0 | 6,3 | 6,2 | 6,1 | 6,3 | 6,0 | 5,9 | 6,1 | 6,4 | 6,6 | 6,8 | 6,4 |
| 2017 | 6,6 | 6,3 | 6,1 | 5,3 | 5,4 | 5,1 | 4,6 | 4,8 | 5,1 | 4,8 | 4,6 | 4,7 | 5,3 |
| 2018 | 4,4 | 4,0 | 3,8 | 4,5 | 4,4 | 4,6 | 5,1 | 4,9 | 4,9 | 5,1 | 5,2 | 4,5 | 4,7 |
| 2019 | 4,0 | 4,1 | 4,5 | 4,4 | 4,5 | 4,5 | 4,0 | 4,3 | 4,1 | 3,7 | 3,6 | 4,0 | 4,1 |
| 2020 | 4,5 | 4,6 | 4,1 | 3,0 | 2,1 | 2,2 | 3,2 | 3,1 | 3,0 | 3,3 | 3,2 | 3,1 | 3,3 |
| 2021 | 3,2 | 2,9 | 3,2 | 4,4 | 5,2 | 4,9 | 4,6 | 4,9 | 5,0 | 5,0 | 5,5 | 5,9 | 4,5 |
| 2022 | 5,7 | 5,7 | 5,9 | 5,9 | 6,5 | 7,4 | 7,8 | 7,6 | 7,5 | 7,6 | 7,4 | 7,2 | 6,9 |
| 2023 | 6,9 | 7,0 | 7,1 | 6,8 | 6,3 | 5,4 | 4,7 | 4,8 | 5,4 | 5,9 | 5,5 | 5,1 | 6,0 |
| 2024 | 5,3 | 5,6 | 5,3 | 5,2 | 5,2 | | | | | | | | |

[3] Rates shown in Table B2 show the official inflation rates as published in the monthly CPI release. Differences due to rounding off may occur when using the rebased indices in Table B1 to calculate the rates of change.

The average CPI for the period in question was 4.2%, thus the agreed increases in salary adjustments should have been in theory as set out below or the applicable salary levels,

1. Level 1 to 7 - 5.2% (4.2% +1.0%)
2. Level 8 to 10 - 4.7% (4.2% + 0.5%) and
3. Level 11 to 12 - 4.2%

By applying these rates of annual pensionable increases to the applicable salary levels, please refer to below extract of Annexure C, if we take Salary Level 1 to 7 as the example and calculate the compound effect of what the applicable salary level remuneration would have escalated to if the agreements were adhered to along with the subsequent salary increases as provided for the following years in question by Resolution 2 of 2023 at the applicable rates as agreed and applied.

**Public Service Act:**

| Salary Level | Salary Range | 2017-04-01 | 2018-04-01 | 2019-04-01 | 2020-04-01 | 2021-07-01 | 2022-04-01 | 2023-04-01 |
|---|---|---|---|---|---|---|---|---|
| **Increase per Resolutions:** | | 7,3% | 7,0% | 6,2% | 5,2% | 1,5% | 3,0% | 3,3% |
| 1 | 1 | 83 766 | 89 631 | 95 187 | 100 137 | 101 640 | 104 688 | 122 784 |
| | 2 | 85 011 | 90 963 | 96 603 | 101 625 | 103 149 | 106 242 | 124 389 |
| | 3 | 86 298 | 92 340 | 98 064 | 103 164 | 104 712 | 107 853 | 126 051 |
| | 4 | 87 582 | 93 714 | 99 525 | 104 700 | 106 272 | 109 461 | 127 713 |
| | 5 | 88 905 | 95 127 | 101 025 | 106 278 | 107 871 | 111 108 | 129 414 |

If we now use the same Member/Employee example as previously mentioned regarding assumptions for Mr. AA Client, but apply the corrected annual pensionable salary increases which should have been adhered to, we calculate the real effect that these would have over the long term for the employee/member regarding his eventual retirement position. Please refer to below extract of Annexure E,

**Pensionable Salary - Scenario Illustrations | Historical Shortfall Rectified**

| | |
|---|---|
| Name | Mr AA Client |
| Date | 15/06/2024 |
| Product | Retirement Platform |
| Financial Adviser Name | Willem J Barnard |
| Financial Adviser Code | NA |

**Defined Benefit Illustration - No Withdrawals**

| | | |
|---|---|---|
| Total Pensionable Salary at Retirement Age - Future Value | R | 1 623 827,03 |
| Total Pensionable Salary at Retirement Age - Present Value | R | 184 013,16 |
| Net Present Value of Retirement Profile @ 65 | R | 4 079 243,66 |
| Future Value of Retirement Profile @ 65 | R | 35 997 350,34 |

By comparing the results of the actual situation of employees to what the position would have been had these salary adjustments been honored, the difference that these incremental changes cause in terms of compound effect can be summarized as below at retirement,

| | Actual | Proposed | Difference |
|---|---|---|---|
| Pensionable Salary @ Retirement \| Future Value | R1 539 877.89 | R1 623 827.03 | R83 494.14 pa |
| Pensionable Salary @ Retirement \| Present Value | R174 499.99 | R184 013.16 | R9 513.17 pa |
| Retirement Profile @ 65 \| Present Value | R3 927 494.98 | R4 079 243.66 | R151 748.68 |
| Retirement Profile @ 65 \| Future Value | R34 662 256.91 | R35 997 350.34 | R1 335 093.43 |

The above summary indicates a substantial difference is future values for any employee/member due to the historical salary adjustments not adhered to.

- **Impact of non-implementation | Impact of CPI/Inflation**

Following on from our previous example mentioned above, as mentioned previously, any annual salary adjustment which is not at least in line with CPI for the year of assessment will seriously run the risk of eroding the purchasing power of employee's pensionable earnings over the long term. This will effectively cause the incremental suffering to be compounded over time, with the lower spectrum of salary level earners baring the biggest weight and suffering the most.

We will now continue to replicate the previous example used, where historic salary adjustments are rectified, and future calculations are based on exactly the same assumptions, apart from the mentioned below,

1. Annual Inflation Rate - 5.59% per annum (No Change)
2. Annual Salary Increase Rates,
   a. Actual Rates applied from 2018 to current
   **b. Future Salary Increase Rates assumed at a constant 6.0% per annum until retirement age.**

Please refer to the below extract of Annexure F, relating to the effect of inflation over the long term,

Pensionable Salary - Historical Shortfall Rectified | CPI Effect

| | |
|---|---|
| Name | Mr AA Client |
| Date | 15/06/2024 |
| Product | Retirement Platform |
| Financial Adviser Name | Willem J Barnard |
| Financial Adviser Code | NA |

Defined Benefit Illustration - No Withdrawals

| | | |
|---|---|---|
| Total Pensionable Salary at Retirement Age - Future Value | R | 2 220 171,12 |
| Total Pensionable Salary at Retirement Age - Present Value | R | 251 591,27 |
| Net Present Value of Retirement Profile @ 65 | R | 4 415 173,42 |
| Future Value of Retirement Profile @ 65 | R | 38 961 767,89 |

By comparing the results of the actual situation of employees to what the position would have been had these salary adjustments been honored and the 6.0% per annum pensionable salary increase was applicable as a constant until retirement age, the difference that these incremental changes cause in terms of compound effect can be summarized as below at retirement,

| | Actual | Proposed | Difference |
|---|---|---|---|
| Pensionable Salary @ Retirement \| Future Value | R1 539 877.89 | R2 220 171.12 | R680 293.23 pa |

| | | | |
|---|---|---|---|
| Pensionable Salary @ Retirement \| Present Value | R174 499.99 | R251 591.27 | R77 091.28 pa |
| Retirement Profile @ 65 \| Present Value | R3 927 494.98 | R4 415 173.42 | R487 678.44 |
| Retirement Profile @ 65 \| Future Value | R34 662 256.91 | R38 961 767.89 | R4 299 510.98 |

The above summary of findings is a clear indication why it is of utmost importance for the future financial sustainability of members/employees that these wage negotiations and agreements always try to at least mirror the average CPI plus an incremental increase. If this is not the case, employees/members will slowly feel the effects of the compound suffering.

- **Compounding of Non-Pensionable Cash Allowance into a Salary Increase**

The South African Policing Union is very concerned regarding the Non-Pensionable Cash Allowance, which was agreed to in terms of,

1. Resolution 1 of 2021 - PSCBC
2. Resolution 2 of 2023 - PSCBC

The initial purpose of the Non-Pensionable Cash Allowance was to increase or assist members with additional cash in their pockets due to the financial difficulties and constraints experienced by compounding economic and financial pressures.

If we refer to below extract of Annexure C, related to the Salary Level Matrix Model.

| | Per Resolution 1 of 2021<br>Non-Pensionable Cash Allowance<br>Actual | <br><br>Actual | |
|---|---|---|---|
| | 2021-04-01 | 2022-04-01 | Rate |
| | 14 640 | 14 640 | 1 220 |
| | 14 640 | 14 640 | 1 220 |
| | 14 640 | 14 640 | 1 220 |
| | 14 640 | 14 640 | 1 220 |
| | 14 640 | 14 640 | 1 220 |

As per Resolution 1 of 2021, the Non-Pensionable Cash Allowance was agreed to and extended until 31 March 2023. In terms of Resolution 2 of 2023, the employer proposed to translate the current Non-Pensionable Cash Allowance into an increase in pensionable salary at an average of 4.2% increase on salary levels 1 to 12. This was proposed in conjunction with a 3.3% increase in existing pensionable salary levels, to form a total increase of 7.5% for the year.

The South African Policing Union is of the view that this conversion of the Cash Allowance to form part of the Annual Pensionable Salary Increase, has effectively put the members in a worse off net position and contradicts the initial purpose of the benefit. This can be explained due to the monthly allowance, now being subject to Retirement Contributions since it forms part of the annual pensionable salary of a member.

If we use our example member previously referred to Mr. AA Client to illustrate the difference as set out below in terms of,

| **Salary Level 1 to 5** | **Cash Allowance** | **Pensionable** |
|---|---|---|
| Gross Allowance | R1 220.00 pm | R1 220.00 pm |
| Pension Contribution - Employer @ 16.0% | R0.00 pm | R195.20 pm |
| Pension Contribution - Employee @ 7.5% | R0.00 pm | R91.50 pm |
| Taxable Benefit | R1 220.00 pm | R933.30 pm |
| Average Rate of Tax @ 25.0% - Tax Liability | R305.00 pm | R233.33 pm |
| | | |
| Amount Paid to Member | R915.00 pm | R699.97 pm |

In theory, the conversion of the Non-Pensionable Cash Allowance into a pensionable salary increase on average of 4.2% makes sense as it will benefit the member in the long term with regards to retirement funding and provisions, but the amendments is in contradiction to what the initial purpose of the best was set out to be and this has had a negative impact on members/employees as they are feeling the effect in their personal households.

In addition to the above mentioned, we refer again to the below extract of Annexure C.

| | | Shortfall In Salary | | Per Salary Extracts Provided Pensionable Salary | | | | | Per Resolution 1 of 2021 Non-Pensionable Cash Allowance | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Proposed | | Pensionable | Rate | Actual | Actual | | Actual | | | Actual | Actual | |
| 2024-04-01 | | Difference | Shortfall | 2022-04-01 | 2023-04-01 | Rate | 2024-04-01 | Rate | | 2021-04-01 | 2022-04-01 | Rate |
| 128 555 | | 5 597 | 4,55% | 99 513 | 117 438 | 18,0% | 122 958 | 4,7% | | 14 640 | 14 640 | 1 220 |
| 130 487 | | 5 687 | 4,56% | 100 995 | 118 968 | 17,8% | 124 800 | 4,9% | | 14 640 | 14 640 | 1 220 |
| 132 460 | | 5 788 | 4,57% | 102 519 | 120 543 | 17,6% | 126 672 | 5,1% | | 14 640 | 14 640 | 1 220 |
| 134 458 | | 5 884 | 4,58% | 104 049 | 122 124 | 17,4% | 128 574 | 5,3% | | 14 640 | 14 640 | 1 220 |
| 136 486 | | 5 983 | 4,58% | 105 615 | 123 741 | 17,2% | 130 503 | 5,5% | | 14 640 | 14 640 | 1 220 |
| | | | 4,57% | | | | | | | | | |

If the agreed annual salary adjustments provided by the previously referred to resolutions, applicable to each salary level and range is applied, including the agreements not adhered to along with the Non-Pensionable Cash Allowance being converted into a pensionable salary increase, there is still a discrepancy between the actual current salary levels reflected in below extract of Annexure A compared to above extract of Annexure C for each salary level and applicable range.

**Public Service Act:**

| | | 7,3% | 7,0% | 6,2% | 1,5% | 3,0% | | 4,7% |
|---|---|---|---|---|---|---|---|---|
| Salary Level | Salary Range | 2017-04-01 | 2018-04-01 | 2019-04-01 | 2021-07-01 | 2022-04-01 | 2023-04-01 | 2024-04-01 |
| | 1 | 83 766 | 89 631 | 95 187 | 96 615 | 99 513 | 117 438 | 122 958 |
| | 2 | 85 011 | 90 963 | 96 603 | 98 052 | 100 995 | 118 968 | 124 800 |
| 1 | 3 | 86 298 | 92 340 | 98 064 | 99 534 | 102 519 | 120 543 | 126 672 |
| | 4 | 87 582 | 93 714 | 99 525 | 101 019 | 104 049 | 122 124 | 128 574 |
| | 5 | 88 905 | 95 127 | 101 025 | 102 540 | 105 615 | 123 741 | 130 503 |

We refer to the extract of Annexure C below to indicate the difference between the shortfalls in currency value and actual rate applicable.

| | | Shortfall In Salary | | Per Salary Extracts Provided Pensionable Salary | | | | | Per Resolution 1 of 2021 Non-Pensionable Cash Allowance | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Proposed | | Pensionable | Rate | Actual | Actual | | Actual | | | Actual | Actual | |
| 2024-04-01 | | Difference | Shortfall | 2022-04-01 | 2023-04-01 | Rate | 2024-04-01 | Rate | | 2021-04-01 | 2022-04-01 | Rate |
| 128 555 | | 5 597 | 4,55% | 99 513 | 117 438 | 18,0% | 122 958 | 4,7% | | 14 640 | 14 640 | 1 220 |
| 130 487 | | 5 687 | 4,56% | 100 995 | 118 968 | 17,8% | 124 800 | 4,9% | | 14 640 | 14 640 | 1 220 |
| 132 460 | | 5 788 | 4,57% | 102 519 | 120 543 | 17,6% | 126 672 | 5,1% | | 14 640 | 14 640 | 1 220 |
| 134 458 | | 5 884 | 4,58% | 104 049 | 122 124 | 17,4% | 128 574 | 5,3% | | 14 640 | 14 640 | 1 220 |
| 136 486 | | 5 983 | 4,58% | 105 615 | 123 741 | 17,2% | 130 503 | 5,5% | | 14 640 | 14 640 | 1 220 |
| | | | 4,57% | | | | | | | | | |

The average rate shortfall on the different salary levels can be summarized as below,

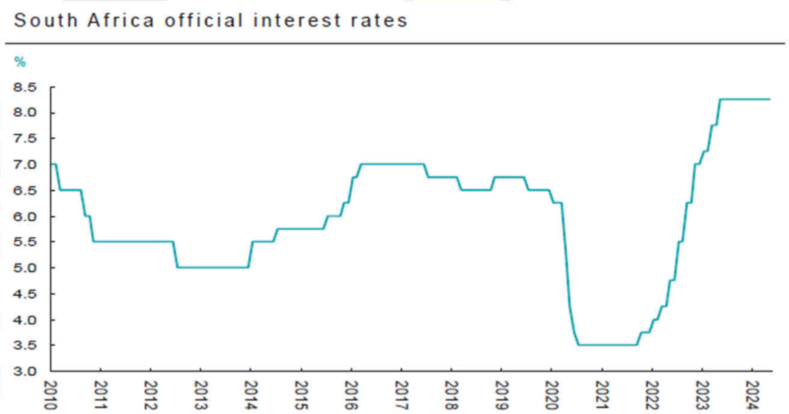
| Salary Level | Average Rate Shortfall – After Conversion of Cash Allowance |
|---|---|
| | |
| Level 1 | 4.57% |
| Level 2 | 4.64% |
| Level 3 | 4.72% |
| Level 4 | 4.79% |
| Level 5 | 4.85% |
| Level 6 | 4.88% |
| Level 7 | 4.93% |
| Level 8 | 4.49% |
| Level 9 | 4.52% |
| Level 10 | 4.54% |
| Level 11 | 4.11% |

| | |
|---|---|
| Level 12 | 4.12% |

It is imperative that these be attended to throughout the next round of wage negotiations to ensure that members are not negatively affected by past implementations.

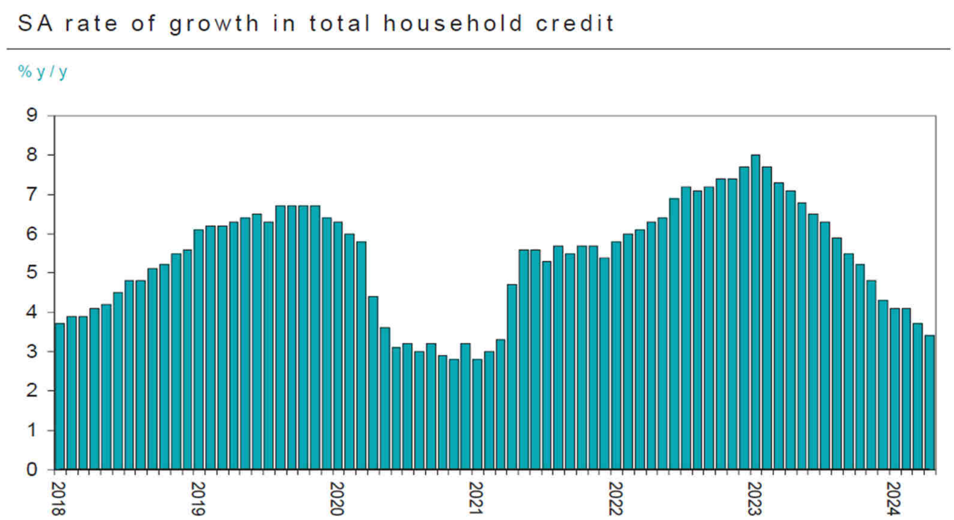
- **High Cost of Living and Real Impact of Repo Rate on Households**

The intention of the South African Policing Union was to investigate the real effect which record high repo rates have on the average household of a public servant, member or employee. If we refer to Annexure G extract below regarding the changes in the repo rate over the past several years.




The intention is to illustrate how changes in the Repo Rate and subsequent Prime Interest Rate directly effects a member's household without a corresponding annual salary increase. Thus, if all matters stay the same on a member's remuneration for the year but there are several changes within the Repo Rate by the SA Reserve Bank, what the real impact would be in terms of cost of living.

We will be focusing on the following different aspects which has a direct impact on household disposable income which are directly linked to the prime interest rate,

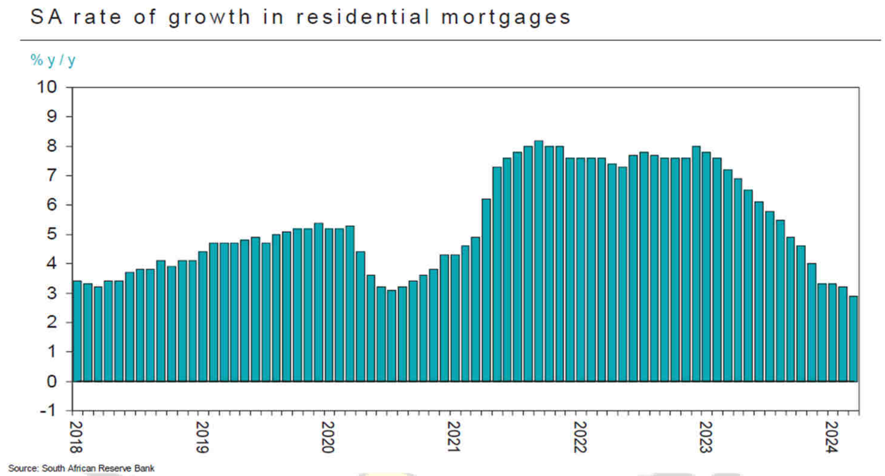



The need or growth of household credit has increased dramatically since 2018 and is slowly starting to normalize again. This will be assisted by potential interest rate cuts in the second half of the year as expected by several of the large Banking Financial Institutions.

If we use an example of a member with the following secured and unsecured debt contracts which are directly affected by any movement in the Prime Interest Rate

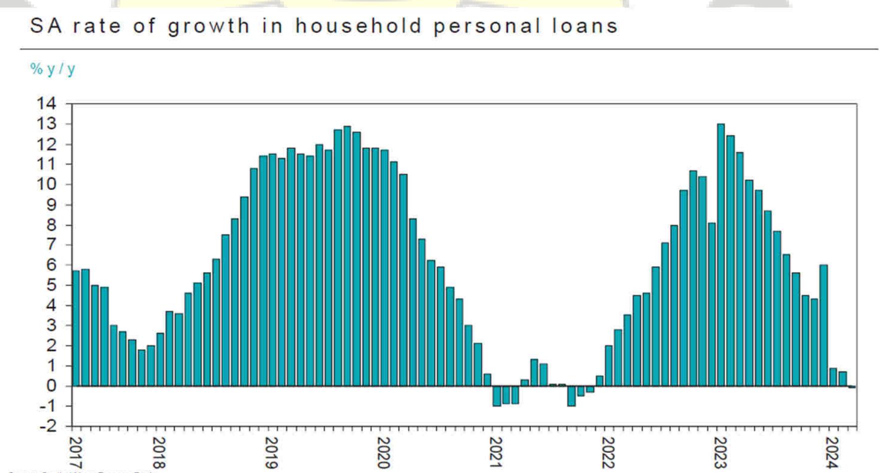
a. Property or Bond Repayment of R1 000 000.00 over a 20-year period will cause the household to pay an additional R1 155.03 pm in interest to service the same bond facility due to the difference between the Prime Interest Rate in 2018 and the rate applicable to 2024.

| **Bond Repayment:** | **2018** | **2024** |
|---|---|---|
| Loan Amount | R 1 000 000,00 | R 1 000 000,00 |
| Interest Rate | 9,00% | 10,75% |
| Loan Term | 20 | 20 |
| Monthly Repayment | R 8 997,26 | R 10 152,29 |
| Difference | R - | R 1 155,03 |



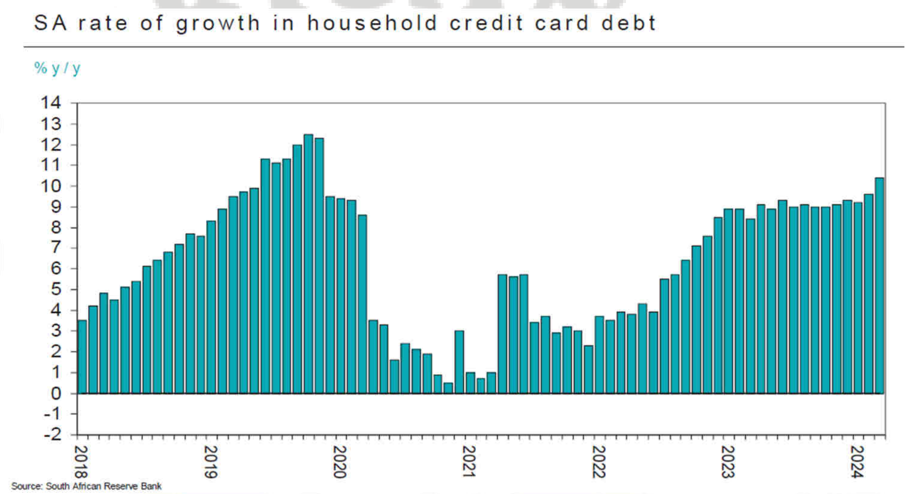

b. Personal Loan Repayment of R50 000.00 over a 5-year period will cause the household to pay an additional R68.58 pm in interest to service the same credit facility due to the difference between the Prime Interest Rate in 2018 and the rate applicable to 2024.

| Personal Loan Repayment: | 2018 | 2024 |
|---|---|---|
| Loan Amount | R 50 000,00 | R 50 000,00 |
| Interest Rate | 17,50% | 20,00% |
| Loan Term | 5 | 5 |
| Monthly Repayment | R 1 256,11 | R 1 324,69 |
| Difference | R - | R 68,58 |




c. Credit Card Repayment of R30 000.00 over a 2-year period will cause the household to pay an additional R36.38 pm in interest to service the same credit facility due to the difference between the Prime Interest Rate in 2018 and the rate applicable to 2024.

| Credit Card Repayment: | 2018 | 2024 |
|---|---|---|
| Loan Amount | R 30 000,00 | R 30 000,00 |
| Interest Rate | 17,50% | 20,00% |
| Loan Term | 2 | 2 |
| Monthly Repayment | R 1 490,49 | R 1 526,87 |
| Difference | R - | R 36,38 |




The concerning thing is that all these small little expenses eventually add up to quite a significant amount at the end of each month and these calculations were done on members with limited or minimal exposure to credit and relatively good credit ratings which allows for discounted or very competitive interest rates.

The biggest concern at this stage is the high interest rates in combination with below CPI annual salary adjustments which is a double blow to members and their households, eroding even more of the purchasing power and adding to the financial pressure they are facing. The utmost care must be taken to ensure that future wage negotiations take all applicable factors into account when it comes to the most basic requirements of living conditions.

- **Practical examples of effects in households**

The South African Policing Union is concerned about the real effect of inflation not only on the potential long-term impact on future salary adjustments but also in the day to day lives of its members. Again, it is reaffirmed that the potential future wage agreements must be cognizant of the real impact of members/employees which are already under severe pressure financially. Below is a summary of end of March 2024 data, which has a direct impact on households.

**The biggest factors affecting households directly can be summarised as below,**

The categories with the highest annual price changes in March were

| | | |
|---|---|---|
| Miscellaneous Goods and Services | - | 8,5% increase |
| Education | - | 6,3% increase |
| Health | - | 6,0% increase |
| Housing and Utilities | - | 5,9% increase |

Education fees are surveyed once a year in March. This year education was 6,3% more expensive in 2024 than compared to 2023. This exceeds the 5,7% annual increase in 2023 and is the highest since 2020 when the rate was 6,4%.

| | | |
|---|---|---|
| High Schools for 2024 | - | 7.3% annual increase |
| Primary Schools for 2024 | - | 5.9% annual increase |
| Tertiary Schools for 2024 | - | 5.9% annual increase |
| Creches for 2024 | - | 6.0% annual increase |
| University Boarding for 2024 | - | 8.2% annual increase |
| Health Insurance for 2024 | - | 12.9% annual increase |
| Food and Non-Alcoholic Beverages | - | 5.1% annual increase |
| Bread and Cereals for 2024 | - | 5.0% annual increase |
| Meat for 2024 | - | 0.8% annual increase |
| Sugar, Sweets and Desserts for 2024 | - | 17.8% annual increase |
| Alcohol and Tabacco for 2024 | - | 4.5% annual increase |
| Housing Rents for 2024 | - | 0.8% annual increase |
| Transport for 2024 | - | 5.3% annual increase |

A practical example of the discrepancy between annual pensionable salary adjustments can clearly be illustrated by a simple Educational Need Calculator as reflected below as an extract from Annexure H. Along with the annual increase year on year of household goods as per the table set out above which on average is much higher than the average annual pensionable salary adjustments dating back to the agreement of 2018.

The example illustrates that, if a member/employee has ONE newborn child or dependent for which he or she must start investing or saving for Tertiary Educational requirements, with average Educational Inflation provided for at 9.0% per annum year on year. This member must start investing or saving a monthly amount of R2 210.00 per month, with an annual contribution escalation of 10.0% per annum, which is also much higher than the actual increases in annual pensionable salary adjustments. Thus, in theory, if this member is in the lower spectrum of the salary level brackets, there is a very high probability that he or she would never be able to accumulate sufficient provisions to allow his/her child to have the benefit of Tertiary Education. The current reality which members are faced with is that due to sub-CPI salary adjustments, the daily cost of living will become unaffordable which causes a spiral into excessive debt to stay afloat.

**Annexure H**

SOUTH AFRICAN POLICING UNION

**Investments**
**Education Needs Planning Calculator - Investment Needed**

*Version: 2.26 (31 Jul 2023 - Model expires on 31 Jul 2024)*

**Conditions of use**
This calculator is not a quotation nor does it provide any information on the actual product. It is simply provided as a tool to illustrate the savings required to provide for education costs and you are urged to ensure that you verify the contents and are comfortable with utilising it.

**What does this calculator do?**
The calculator aims to estimate the level cover required to provide education per child should the client die or become disabled. In addition, the estimated monthly contributions are calculated and an analysis is performed to quantify any cover shortfalls.

**Disclaimer**
The provision of this calculator does not constitute advice. Whilst every attempt has been made to ensure the accuracy of the information and calculations contained herein, no responsibility for any errors that may occur or for any damages suffered as a result of such errors. The values provided are not the final values and are merely an estimate based on the information provided by the prospective policyholder and should not be relied on in isolation. Any recommendations made must take into account the personal circumstances and specific needs of the client.

| | |
|---|---|
| **Name of Child:** | Child |
| **Year of Birth:** | 2023 |
| **Date of Commencement:** | 1 Jul 2024 |
| **Age next on 1 January 2024** | 1 |

| Client Details | | | | | |
|---|---|---|---|---|---|
| **Title:** | Mr | **First names:** | AA | **Surname:** | Client |
| **Date of birth:** | 1 July 1999 | **Gender:** | Male | | |

| Estimated cost of education | | | |
|---|---|---|---|
| **Institution** | **Tuition** | **Boarding** | **Total** |
| Tertiary - Client's estimated cost (current cost) | R 45 000 | R 90 000 | R 135 000 |

| Illustrated future cost of education | | | | | | |
|---|---|---|---|---|---|---|
| | | **Age Attained** | **Year** | **Illustrated Tuition Expense** | **Illustrated Boarding Expense** | **Illustrated Total Paid by Education Builder*** |
| **Tertiary** | | 19 | 2042 | 212 280 | 424 550 | 636 820 |
| | | 20 | 2043 | 231 380 | 462 750 | 694 130 |
| | | 21 | 2044 | 252 200 | 504 400 | 756 600 |
| | | 22 | 2045 | 274 900 | 549 800 | 824 690 |

**Withdrawals from the Education Builder is only available after the 1st 5 years (i.e. after end of the legislative restriction period), as per the rules of the Long Term Insurance Act (and to avoid any early termination charges on monies withdrawn).*

| | |
|---|---|
| Total estimated tuition cost | R 970 760 |
| Total estimated boarding cost | R 1 941 500 |
| **Total estimated cost** | **R 2 912 260** |

**Approximate monthly premium required to fund for your child's education:** R 2 210

The premium will be assumed to escalate annually at 1.0% p.a. The premium in your final policy year will therefore be approximately R 14 810.
The above contribution needs to be paid for a term of 20 years and 6 months.
The investment return is assumed to be after any four-fund tax and product charges have been deducted.



- **Impact of Medical Aid Inflation on Households**

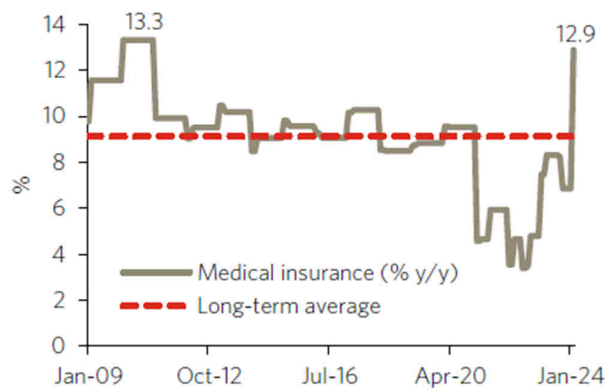
The South African Policing Union is concerned about the real effect of medical inflation which has a direct effect on the monthly membership contributions deducted from the salaries of the members.

Current medical inflation is of grave concern as it increases much faster per annum than the basic CPI. These contributions to the schemes are a condition of employment which is non-negotiable in any event for each member.

The concern is that, with exuberant annual membership contribution increases on a compulsory scheme, the member is at the mercy of these increases. We revert back to our initial standpoint, that the future wage agreements must take into account ALL relevant aspects of these matters raised. An annual pensionable salary adjustment of 4.5% can easily be nullified by a 10%+ contribution increase in compulsory medical aid contributions.

The latest statistics show that medical insurance accounts for 7.1% of headline inflation and 13.9% of the core basket and rose to 12.9% year on year in February, the sharp jump was on the back of high increases in membership contributions from medical schemes throughout the industry.

Chart 2: Medical insurance inflation surges to the second highest historical level in February 2024




*Source: Global Insight, Stats SA, Momentum Investments*
*Data until February 2024*

A summary of the average medical aid contribution increases across most of the Medical Aid Service Providers can be found below,

Table 1: Medical schemes implemented sharp contribution increases in 2024 (%)

| Medical scheme | 2023 average increase | 2024 average increase |
|---|---|---|
| Bestmed | 8.5 | 9.6 |
| Bonitas | 5.9 | 6.9 |
| Discovery Health | 8.2 | 7.5 |
| Fedhealth | 8.8 | 10.8 |
| Gems | 5.0 | 9.4 |
| Medihelp | 7.5 | 16.0 |
| Medshield | 6.7 | 5.0 |
| Momentum Health | 6.4 | 9.6 |
| Average increase | 7.1 | 9.4 |

Source: ABSA, Momentum Investments

The membership towards GEMS and Polmed were investigated to allow for a practical example should members start saving for post-retirement medical prefunding since at mature retirement ages is when membership towards these funds is most crucial.

If we refer to below extract of Annexure K which illustrates a benefit option "Emerald" which is a popular option on the GEMS Platform.

EMERALD

| | | | |
|---|---|---|---|
| R0 - R15 821.00 | R3 554 | R2 707 | R1 319 |
| R15 821.01 - R27 324.00 | R3 933 | R3 041 | R1 478 |
| R27 324.01 + | R4 410 | R3 381 | R1 649 |

In the event of a member wishing to start saving towards provisions to supplement his/her Medical Aid through a pre-funding strategy, in essence ensuring sufficient pre-retirement savings to attend to post-retirement medical aid responsibilities for a member and an adult dependent as a spouse.

The current total contribution for a Principal Member and Adult Dependent is R6 974.00 pm (R3 933 + R3 041) for a member or employee who earns a monthly salary of between R15 821.01 to R27 324.00.

If we assume that this member is at the high end of the scale with a monthly income of R27 324.00, the Medical Aid contribution for current membership on its own equates to 25.52% of his/her monthly income before any income tax liability has been deducted. This does not include any child dependent or any additional savings for post-retirement medical aid liabilities.

If the above-mentioned member would like to start contributing towards a Medical Aid Prefunding platform to provide for medical aid expenses for both spouses starting from retirement age 65 and providing for a 15-year funding period, the calculations is indicated as below as estimated calculations to use as guidance.

Thus, as per calculations, if the member would like to provide for post-retirement medical aid expenses, he/she must start investing an additional contribution over and above the actual current medical aid contributions of R4 889.00 per month with an annual contribution escalation of 5.0% per annum.

This along with the current medical aid contribution equates to R11 863.00 pm from his/her R27 324.00 pm gross salary (43.42%) before income tax has been deducted. The conclusion of this is that it becomes financially unattainable for any member and hence the reason why so small a portion of the population can make sufficient provisions. A properly informed annual salary adjustment agreement may not immediately solve all these issues members are faced with in their daily lives, but it will definitely ensure that the basic conditions of living is attended to and maintained.

Please refer to below extracts of Annexure J,

**Client Details**

| | |
|---|---|
| Name: | AA Client |
| Age of principal member: | 25 years |
| Retirement age of principal member: | 65 years |
| Age of spouse: | 25 years |

**The Importance of Pre-Funding for Medical Expenses During Retirement**

Medical costs, or the monthly contribution to a medical scheme, may be a significant cost for pensioners. However, many South Africans do not take this expense into account when doing their retirement planning.

The aim of this calculator is to give you an indication how much you need to save on a regular basis to pay medical scheme contributions after your retirement.

**Medical Scheme Contribution**

| | Amount |
|---|---|
| Current monthly contribution to a medical scheme: | R 6 974 |
| Projected monthly medical scheme contribution at retirement: | R 166 187 |

The projected monthly medical scheme contribution was calculated using an assumed rate of medical inflation of 8.25% per annum.

**Investments**
**Post-Retirement Medical Prefunding Calculator**

*Version: 12.4 (31 Aug 2022) Expiry Date: 31 Aug 2023*

**Appendix - Summary of information provided**

| | |
|---|---|
| Current Medical Scheme Contribution: | R 6 974 |
| Medical Inflation: | 8,25% p,a, |
| Investment Return: | 8,00% p,a, |
| Funding period: | 15 years |

**Past Provision Already Made**

**Investments**
**Post-Retirement Medical Prefunding Calculator**

*Version: 12.4 (31 Aug 2022) Expiry Date: 31 Aug 2023*

**The Solution**

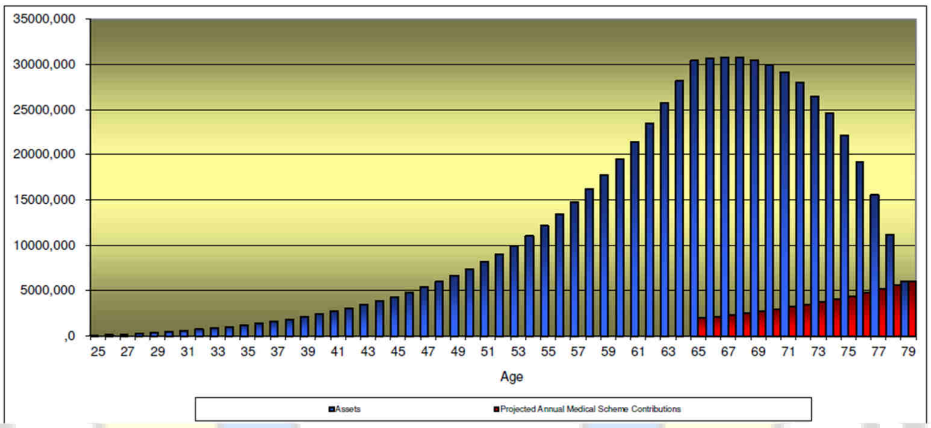
| | Amount |
|---|---|
| Additional Lump Sum Contribution: | R 0 |
| Additional Recurring Contribution: | R 4 889 p.m. |

The recurring contribution will escalate at 5% per annum.

Based on the information that you provided as well as the assumptions made in the calculation, these additional contributions, plus your existing provisions as detailed below, should be sufficient to provide for your postretirement medical scheme expenses for a period of 15 years.

However, please note that this calculation depends on many factors that can change over time. There are no guarantees that this amount will be sufficient. It is therefore essential that you review your position regularly with the assistance of your financial adviser.

The following shows the accumulated value of your assets (as inputted by you) over time along with the optimal additional contributions as specified above. This is represented by the blue bars. It increases due to your assumed growth rates and new contributions. At retirement it starts to decrease as money is needed for your medical scheme contributions. Your medical scheme contributions are represented by the red bars each year.




- **Public Service Wage Bill versus Public Sector Wage Bill**

  The South African Policing Union raised concerns with regards to the disparity between the Public Service Wage Bill and the total Public Sector Wage Bill.

  As per below extracts from Annexure L, the Medium-Term Budget Policy Statement as presented the Minister of Finance, the proportion of Public Service Wage Bill allocated to the Policing Sector constitutes a 12.96% contribution of total expenditure.

Table B.1 Public-service wage bill projections over the 2024 MTEF period by sphere and sector

| R million | 2023/24 Revised baseline | 2024/25 | 2025/26 | 2026/27 | Average annual growth 2023/24 – 2024/25 | Average annual growth 2023/24 – 2026/27 |
|---|---|---|---|---|---|---|
| | | Medium-term estimates | | | | |
| **By sphere** | | | | | | |
| National | 190 664 | 195 264 | 204 696 | 214 299 | 2.4% | 4.0% |
| Provincial | 455 778 | 468 004 | 483 672 | 506 050 | 2.7% | 3.5% |
| **By sector** | | | | | | |
| Education | 239 888 | 247 985 | 257 728 | 269 567 | 3.4% | 4.0% |
| Health | 158 231 | 161 766 | 165 864 | 173 478 | 2.2% | 3.1% |
| Police | 83 795 | 88 608 | 93 716 | 98 006 | 5.7% | 5.4% |
| Defence | 31 829 | 32 525 | 33 960 | 35 514 | 2.2% | 3.7% |
| Correctional services | 18 290 | 18 694 | 19 520 | 20 413 | 2.2% | 3.7% |
| Other | 114 409 | 113 690 | 117 580 | 123 371 | -0.6% | 2.5% |
| **Total** | **646 442** | **663 268** | **688 368** | **720 349** | **2.6%** | **3.7%** |

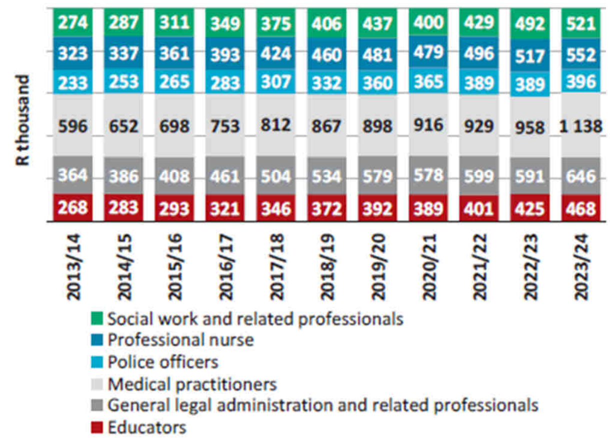
*Source: National Treasury*

Following on from the above mentioned, the below extract reflects the average Public Service Unit Cost per profession. The average cost in terms of the Policing profession compared to other Public Services has a considerable lag in terms of the other occupations.

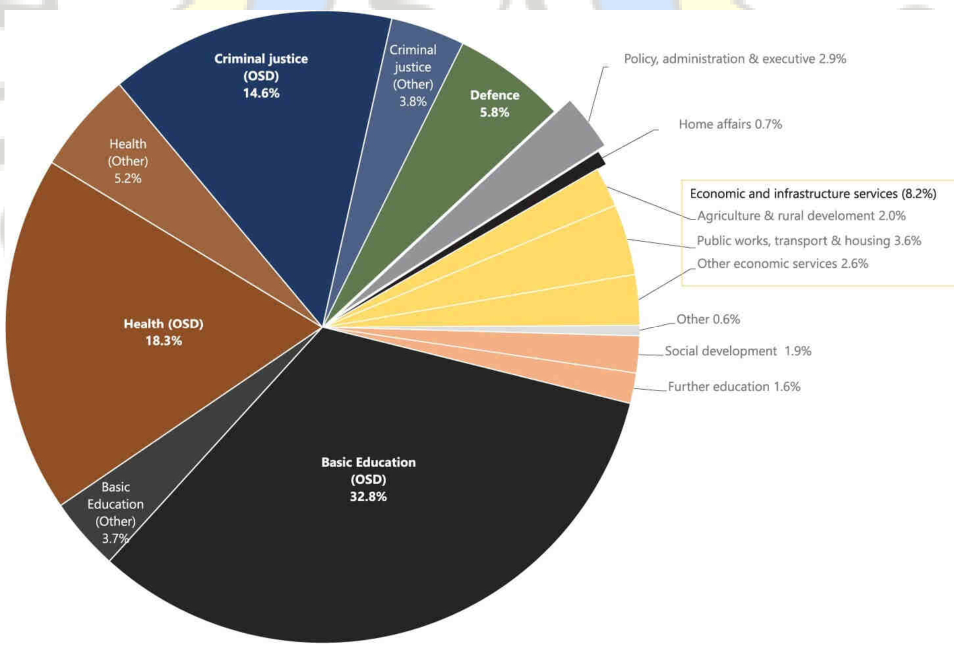
This is concerning, due to the fact that, in the event of the annual budgets being allocated proportionately, if pay progression and salary adjustments are done universally across the spheres of public services at the same rates or increases. The real or net effect of the increase or salary adjustments being calculated from a lower income base, although in theory would be proportionately compared to other Public Service professions, but as mentioned extensively in previous chapters, the above inflation or CPI increases of Medical Aid, Living Costs, Financial or credit commitments due to changes in the Prime Interest rates would erode the increase on a lower pensionable base much faster compared to the same percentage increase of the other professions.

Extreme care must be taken when it relates to the annual salary adjustments to the lower spectrum of salary levels as these members may are the most vulnerable to the impacts of the economy and interest rates as per the research conducted.

Figure B.6 Public-service unit cost trends by profession




The government wage bill: Employment and compensation trends in South Africa



Average Gross Monthly Compensation:

| | Occupation Specific Dispensations | | | | | | | | | Non-OSD by salary level | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Doctors* | Nurses | Social workers | Educators | Police | Corrections | Legal** | Judges+ | Engineers | [1-3] | [4-6] | [7-9] | [10-12] | [13-17] | Mean | Median |
| 2009 | 52,825 | 28,360 | 28,475 | 31,466 | 26,789 | 29,436 | 57,711 | 113,650 | 36,404 | 11,280 | 18,482 | 31,785 | 56,064 | 104,173 | 27,392 | 30,426 |
| 2010 | 59,340 | 30,218 | 28,801 | 33,435 | 27,510 | 30,242 | 63,051 | 113,013 | 43,655 | 12,199 | 19,695 | 32,624 | 58,545 | 105,853 | 29,200 | 33,536 |
| 2011 | 55,101 | 30,816 | 29,437 | 34,802 | 27,975 | 31,010 | 63,372 | 118,639 | 45,534 | 12,481 | 20,242 | 33,888 | 63,419 | 111,627 | 30,266 | 34,706 |
| 2012 | 55,046 | 30,924 | 30,193 | 35,609 | 28,546 | 31,690 | 63,403 | 114,594 | 46,070 | 12,384 | 20,638 | 34,633 | 64,512 | 109,308 | 30,738 | 35,887 |
| 2013 | 56,027 | 31,351 | 30,181 | 35,948 | 29,288 | 32,337 | 63,438 | 117,335 | 44,308 | 12,379 | 20,957 | 34,389 | 62,921 | 105,709 | 31,284 | 36,424 |
| 2014 | 56,833 | 31,510 | 30,274 | 36,314 | 30,216 | 32,085 | 63,123 | 116,466 | 45,009 | 12,869 | 21,172 | 34,884 | 64,530 | 106,819 | 32,010 | 37,016 |
| 2015 | 57,396 | 31,891 | 30,712 | 36,714 | 31,069 | 32,581 | 63,388 | 114,805 | 45,728 | 13,022 | 21,569 | 35,301 | 64,908 | 106,952 | 32,491 | 37,798 |
| 2016 | 58,492 | 32,731 | 31,577 | 37,098 | 31,542 | 33,406 | 65,716 | 104,293 | 46,929 | 14,588 | 22,133 | 36,239 | 66,320 | 105,541 | 33,323 | 39,005 |
| 2017 | 60,609 | 33,450 | 32,667 | 38,085 | 31,773 | 34,450 | 68,263 | 105,281 | 48,463 | 14,985 | 22,935 | 37,025 | 67,727 | 105,885 | 34,332 | 44,117 |
| 2018 | 61,987 | 34,555 | 33,946 | 38,702 | 32,450 | 35,102 | 70,857 | 105,741 | 49,901 | 15,544 | 23,811 | 38,050 | 68,934 | 106,912 | 35,151 | 43,415 |
| 2019 | 62,738 | 35,374 | 35,042 | 39,340 | 33,362 | 35,885 | 72,370 | 103,772 | 50,859 | 15,920 | 24,555 | 39,043 | 70,033 | 108,224 | 35,636 | 42,999 |
| 2020 | 61,502 | 34,334 | 33,868 | 38,382 | 33,190 | 35,039 | 68,005 | 103,243 | 48,921 | 15,203 | 24,064 | 37,953 | 67,811 | 104,792 | 34,812 | 41,352 |
| 2021 | 60,337 | 34,034 | 35,135 | 37,567 | 33,047 | 34,023 | 63,390 | 96,421 | 49,004 | 16,077 | 24,444 | 38,059 | 66,710 | 102,498 | 34,839 | 41,223 |

* Includes allied healthcare professionals; ** includes prosecutors; + includes magistrates.

Source data: PERSAL (GTAC-PEPA), StatsSA (CPI index).

- **Economic Outlook regarding Economic and Political Uncertainty**

The South African Policing Union requested an update regarding the current Economic Outlook with a view on the current Political Uncertainty as a result post the national election.

Markets remain weary as SA election results bring surprises and uncertainty Kevin Lings discusses SARB's decision to keep interest rates unchanged at 8.25%, with the MPC indicating that the risks to SA inflation are now "balanced". Fittingly, he also focuses on the recent SA elections. The rand lost a significant 4% of its value against the US dollar during in the past nine trading days, as investors became more concerned about the likely outcome of SA's elections, but this has bounced back since the announcement of the intention to form a Government of National Unity.

It is extremely important to note that at the time of writing this report the ongoing negotiations regarding the political parties included in the Government of National Unity was still changing and that it seems that the markets, currency and financial sectors are reacting positively towards the ongoing negotiations since it seems less likely that an ANC/MK/EFF coalition would be the preferred outcome.

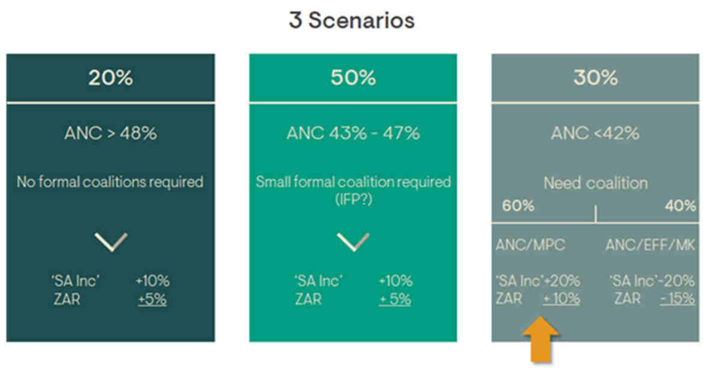
This had a very positive effect on the currency and resulted in significant gains, which will surely now motivate the SA Reserve Bank to cut the repo rate in the next quarter, which in turn will bring much relieve to consumers on the ground as previously elaborated on.

**Comments on outcome of SA's National Election on 29 May 2024 by Kevin Lings,**

- The results of the national election have created a high level of political uncertainty, aggravated by an underestimation of the support for the MK party, the lack of preparedness by the major political parties for coalition talks (including the ANC), the plethora of smaller parties that have contested aspects of the election outcome, veiled threats by the leader of the MK party, and a wide array of very inflammatory comments on social media.
- While the polling ahead of the national election provided some useful insights into the election outcome, most of the polls also contained significant under- and over-estimations of support for individual political parties. A key error (that heavily impacted the financial sector), which followed the release of the final IPSOS poll on 27 April, was the idea that the ANC election outcome would benefit from a low voter turnout. In fact, some analysts added a full 5 percentage points to IPSOS' estimate that the ANC would receive only 40% of the vote. This led to an increased level of complacency that the ANC (with 45% of the vote) would be able to partner with a range of small parties to lift their support above 50%.
- It is clear that many voters rejected the ANC in favour of the MK party. However, in the IPSOS poll that was released before the MK party was included in the survey, the EFF had an estimated 19.6% of the vote. This suggests that the launch of the MK party was not a key factor in shifting voters away from the ANC. The catalyst for this shift was created by the ANC itself. However, once the MK party was launched, many voters quickly shifted their support away from the EFF to the MK party as the key alternative to the ANC – and critically, this shift in voter support did not favour the DA party. This makes an ANC/DA coalition hugely problematic for the ANC – suggesting that a partnership with the DA would require a broader inclusion of other political parties.
- At a provincial level it would be extremely problematic for KwaZulu-Natal to form a coalition that excludes the MK party – especially given more recent statements from Jacob Zuma.
- In terms of a workable collation, most analysts have been debating similar alternatives/scenarios. Most analysts agree that an ANC/MK coalition is the least likely option and that an ANC/MPC coalition is the most likely option – however the level of conviction around the various coalition options is very low. For example, it is feasible that the ANC decides to continue as a minority government, with high level (confidence and budget) support from some key opposition parties such as the DA.
- It is notable that the EFF party has been trying to warm-up to the ANC in recent days, certainly relative to prior utterances. Unsurprisingly, some analysts have suggested that the outcome of the election should be used as an opportunity to put the "ANC back-together". This argues for an ANC, EFF and MK coalition that ultimately excludes President Ramaphosa.
- The ANC has been very vocal in their ongoing support for President Ramaphosa and have rejected any coalition negotiation that stipulates the removal of President Ramaphosa. At this stage their support appears genuine and unwavering.

- It is also notable that in South Africa's key economic provinces (Gauteng, Western Cape and KwaZulu-Natal), which represents 63% of SA's GDP and 56% of SA's population, the ANC has a combined voter support of only 26%.
- At a national level the immediate political uncertainty is going to take a couple of weeks to address and will likely persist well beyond that. Equally, a high level of uncertainty will prevail in some of the key provinces such as KwaZulu-Natal and Gauteng. There will also likely be a significant shift in political allegiance at a local government level.
- The **South African Reserve Bank decided to keep the Repo rate unchanged at 8.25% at its MPC meeting during the week**. The decision was unanimous and in-line with market expectations. The SA Repo rate has been unchanged at 8.25% since May 2023. The MPC highlighting that while the outlook for inflation has improved, "the task of achieving our inflation objective is not yet done". Overall, the MPC appears less concerned about the upside risks to SA inflation and appear a little more comfortable with the outlook for global inflation and global interest rates. In fact, the MPC indicated that the risks to SA inflation are now "balanced". Nevertheless, the MPC is flagging the still elevated level of inflation expectations as a key reason to prolong the current restrictive level of rates, suggesting that the Repo rate will remain unchanged for a few more months. Since November 2021, the Repo rate has increased by a total of 475bps, taking the Repo rate to its highest level since April 2009 – effectively the highest interest rates in just over 14 years. **At this stage we still expect the MPC to start cutting rates on either 19 September or 21 November, helped by a likely meaningful moderation of SA inflation during the final quarter of 2024** and into 2025. The start of the SA cutting cycle could be boosted by the expectation that the European Central Bank will start cutting rates in June, while the US Federal Open Market Committee is expected to start their cutting cycle in September 2024.
- During the week, SA's National Treasury released the **April 2024 statement of revenue, expenditure and borrowing**. This is the first statement for the current financial year. The data shows that tax revenues amounted to a respectable R108.6 billion in the month, with personal income tax collection remaining especially robust, helped by the finance minister's decision to not adjust the income tax brackets in the National Budget to allow for the negative impact of fiscal drag. Tax from import duties was also relatively strong. In contrast, collection of tax on corporate income was very disappointing in April, declining by 22.2%y/y, while VAT receipts slumped by 11.2%y/y (hurt by a rise in VAT refunds during the month). Although the tax collection in April 2024 is a promising start for the 2024/25 financial year, most especially the strong growth personal income tax collection, this was not driven by stronger economic activity but rather by the impact of fiscal drag.
- **SA government expenditure** rose by a worrying 10.5%y/y in April, suggesting that while government was able to rein in spending at the end of the previous financial year, to meet expenditure targets. Spending has since ramped up.

The current conditions in the economy and markets can be best described by the different scenarios which were possible prior to the National Election as set out below,




As the ANC secured just over 40% in the election, necessitating a coalition to retain power. Ultimately, the Government of National Unity was formed with the DA, IFP, and several smaller parties, excluding the EFF and the MK.  This outcome has proven very positive from a market perspective. As of Friday, June 21, 2024, the ALSI Share index increased by 4.1% since June began, the South African Bond Market also increased by 6.5%. Gains in SA Inc. sectors such as Financial Institutions ie. banks increased by 17.6%, while this also overflowed to Domestic Retailers who saw a 19.8% increase in the three weeks.

Foreign interest in our markets has increased significantly, with initial foreign purchases noted in bonds and equities. Despite pressure on other emerging market currencies, the Rand strengthened to around R18 against the US dollar and was trading at R17.80 at one stage. Additionally, our 10-year government bond yield dropped by more than 100 basis points to approximately 11%, down from a peak of 12.1% post-election.

These market movements change continuously due to the fine balancing act required to finalize the formal Government of National Unity to allow for the new Cabinet of the 7th Administration to be appointed, to allow the newly formed Government to start working efficiently. The market and economic response have been exceptionally strong, indicating unsustainable momentum. A period of consolidation is likely ahead after the dust settles and everybody hits the ground running.

**Conclusion**

Even though under favorable current economic conditions and the relative positive political position relating to the formation of the Government of National Unity, extreme care must be taken not to get overly excited as these sentiments will eventually return to normal.

The positive impact or change that a Government of National Unity can drive through economic growth in partnership with the Operation Vulindlela initiative may have a significant economic turnaround strategy for the country as a whole. This may encourage sufficient economic growth which would translate to more job creation and lower levels of unemployment, expanding the broader tax base.

This may result in lower levels of inflation, which will allow the SARB to actively cut the repo lending rate in the second half of the year, which will filter through to households in the form of much needed savings on interest repayments on secured and unsecured debt, freeing up desperately required disposable income within the households.

It is extremely important that any new salary adjustment or wage agreements negotiated and concluded must be followed through as agreed, but as per the extensive calculations and scenarios illustrated, it is imperative that the historical agreements not adhered to over the 01/04/2020 period must be taken into account whilst negotiating and a resolution concluded to allow for provisions in which these outstanding or arrear increases be brought into line over the next several cycles if possible.

The intention of the research done was to illustrate in a practical manner, supported by comprehensive calculations of scenario planning and several remuneration models what the real effect of below CPI pensionable salary increase adjustments has on a member or employee, not just in terms of the immediate position after the increase, but also in terms of the severe long term effects such continuous below CPI increases would erode the member's financial position, not just in terms of pensionable salary and benefits, but it has a direct impact in the day to day living of the member or employee.

Over a sustained period of below CPI annual increases, household income would be eroded to such an extent that it becomes unviable for the member/employee to continue employment and might consider work in the Private Sector. Thus, it is a fine balancing act, but as mentioned through the portion referring to the Public Service Wage Bill, the real effect within a household of annual increases calculated from a smaller base income, is felt much harder or faster than the same percentage increase on other Public Service Professions with a much higher base income.

Thus, it is common knowledge that the fiscus is under severe pressure compounded by several years of economic struggles with below average economic growth, combined with record high levels of unemployment, adding additional pressure on the fiscus.

We are not advocating for any unreasonable or unaffordable double digit percentage wage demands, we merely request that sufficient consideration be given to the actual effect on households in terms of,

1. Below CPI Annual Salary Adjustments
2. Salary Adjustments not adhered to
3. High Cost of Living
4. Drastic impact of Medical Inflation and the effect of annual contribution increases,

Based on the scenarios, calculations and illustrations we have provided as proof of the real effect on the day to day lives of the members or employees who must ensure the safety of our country and its residents. We hereby propose the following salary adjustments for the next agreements,

**Primary Salary Adjustments Proposed:**

As per below extract from Annexure D, the average CPI rate over the April 2023 to March 2024 period was 5.5%

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2022** | 5,7 | 5,7 | 5,9 | 5,9 | 6,5 | 7,4 | 7,8 | 7,6 | 7,5 | 7,6 | 7,4 | 7,2 | 6,9 |
| **2023** | 6,9 | 7,0 | 7,1 | 6,8 | 6,3 | 5,4 | 4,7 | 4,8 | 5,4 | 5,9 | 5,5 | 5,1 | 6,0 |
| **2024** | 5,3 | 5,6 | 5,3 | 5,2 | 5,2 | | | | | | | | |

[3] Rates shown in Table B2 show the official inflation rates as published in the monthly CPI release. Differences due to rounding off may occur when using the rebased indices in Table B1 to calculate the rates of change.

As per our extensive calculations and scenarios indicating the real impact of sub-CPI salary adjustments, we are proposing a salary adjustment of above stated CPI + 1.0% increase for all members.

| Salary Level | Primary Salary Adjustment Proposal |
|---|---|
| | |
| Level 1 - 7 | 5.5% + 1.0% - (CPI + 1.0%) |
| Level 8 - 10 | 5.5% + 1.0% - (CPI + 1.0%) |
| Level 11 - 12 | 5.5% + 1.0% - (CPI + 1.0%) |

**Historical Salary Adjustments Rectified as Proposed:**

As per our calculations supplied and taking the severe compound effect into account of previous wage agreements not honored and the real effect it had on members, we propose that the historical arrear increases as indicated below (average per salary groups as stipulated by the agreed Resolutions) be rectified incrementally over a three-year period in addition to the proposed Primary Salary Adjustment Proposal.

This will ensure that as per the data, our members will be in the same position which they should have been in were it not for the defaults in agreements by the employer.

| Salary Level (Group) | Average Rate Shortfall – After Conversion of Cash Allowance | 2024/25 Increment Additional Increase | 2025/26 Increment Additional Increase | 2026/27 Increment Additional Increase |
|---|---|---|---|---|
| | | | | |
| Level 1 - 7 | 4.8% | 1.6% | 1.6% | 1.6% |
| Level 8 - 10 | 4.5% | 1.5% | 1.5% | 1.5% |
| Level 11 - 12 | 4.1% | 1.4% | 1.4% | 1.3% |

The above proposals applicable to the following three-year salary adjustment cycle will be over and above future wage negotiation agreements.

Thank you very much.

Kind regards,

South African Policing Union

National Union of Public Service and Allied Workers

Professional Educators Union