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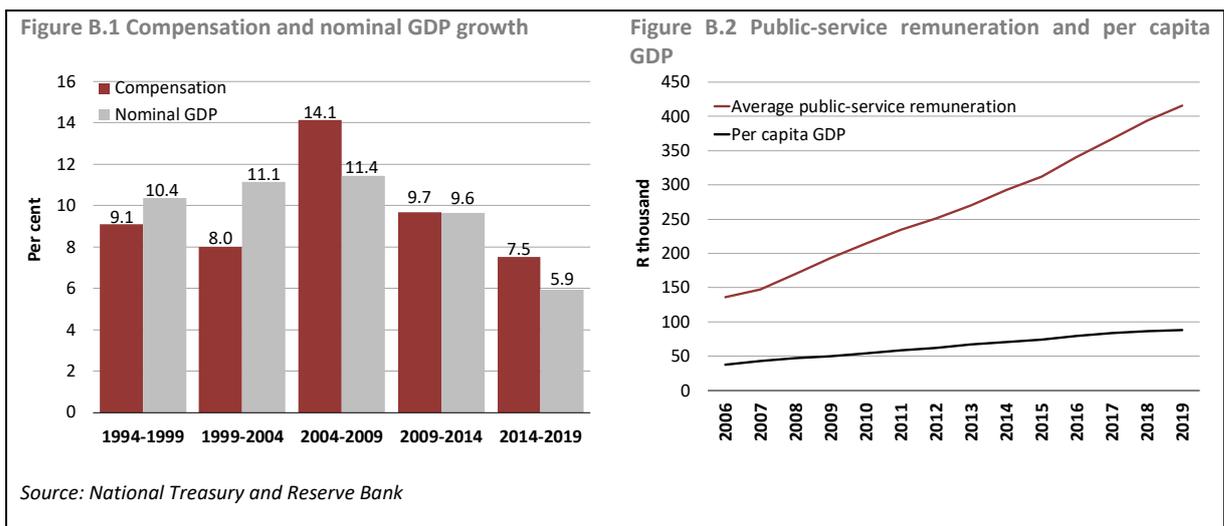
Compensation data

Introduction

This annexure analyses trends in public-service compensation. Because services such as education, law enforcement and healthcare are inherently labour intensive, the remuneration of teachers, police officers, doctors and nurses accounts for a high proportion of their budgets. Given that these functions account for the largest share of the consolidated budget, compensation accounts for a large share of aggregate spending.

Until the mid-2000s, public-service compensation spending grew more slowly than nominal GDP. Since 2004, however, this relationship has reversed (Figure B.1), and the ratio of compensation spending to GDP has increased to about 11 per cent.

As a proportion of consolidated spending, compensation has averaged about 35 per cent of the total over the last 25 years, with a high of 42 per cent in 1996/97 and a low of 31 per cent in 2008/09. In 2019/20, compensation spending was the equivalent of 41 per cent of consolidated revenue.



Public-service remuneration in a wider context

Since 2006/07, average public-service remuneration has increased at a faster pace than per capita GDP (Figure B.2), and is now 4.7 times larger. The growing gap is partly the result of slow economic growth and high levels of unemployment, both of which suppress per capita GDP. But divergence this rapid is

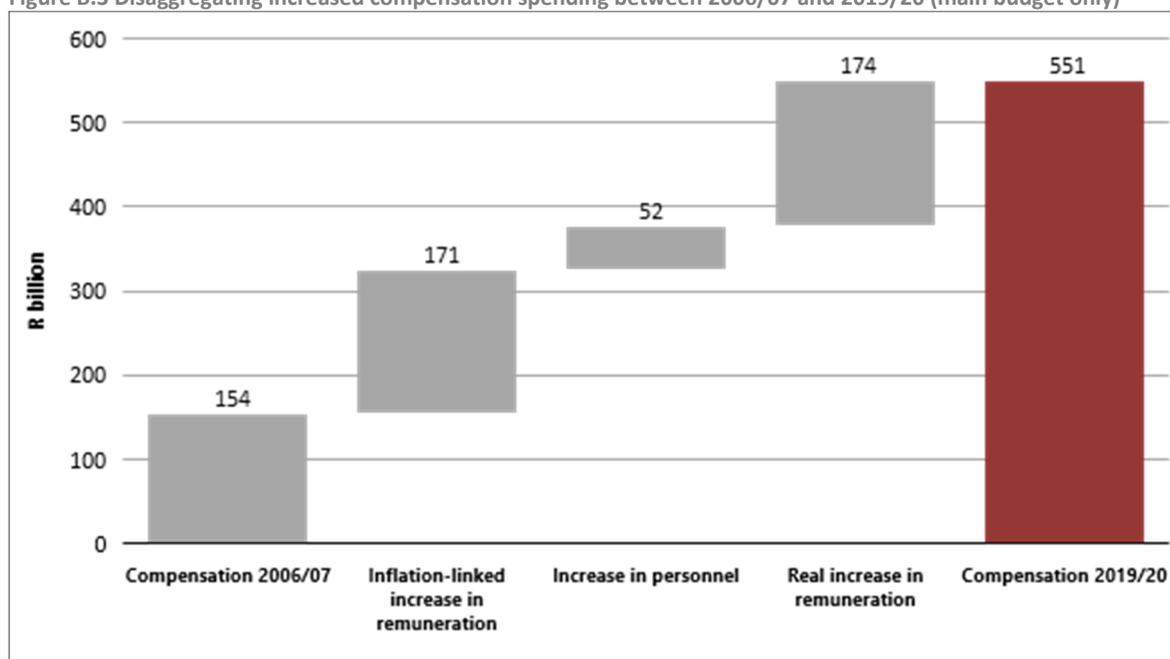
unsustainable and suggests that the model for setting wages in the public sector has not been able to moderate the rate of increase of remuneration to weaker economic conditions.

Remuneration for employees of national and provincial governments tends to be higher than that of private-sector workers. More than 95 per cent of public servants earn more than the bottom 50 per cent of registered taxpayers. Statistics South Africa survey data also suggests that public-sector compensation growth has outpaced private-sector compensation growth over the past decade, as discussed in the 2019 *Medium Term Budget Policy Statement* (MTBPS).

The drivers of rising compensation spending

As outlined in the 2018 and 2019 MTBPS documents, growth in compensation spending was driven by two forces: an increase in personnel numbers and an increase in remuneration. Of the two, the increase in remuneration has been the most important, accounting for 77 per cent of the increase in spending on compensation on the main budget between 2006/07 and 2019/20 even after adjusting 2006/07 salaries for inflation. An increase in personnel numbers over the period, from 1.15 million to 1.33 million, accounts for the remainder of the increase.

Figure B.3 Disaggregating increased compensation spending between 2006/07 and 2019/20 (main budget only)

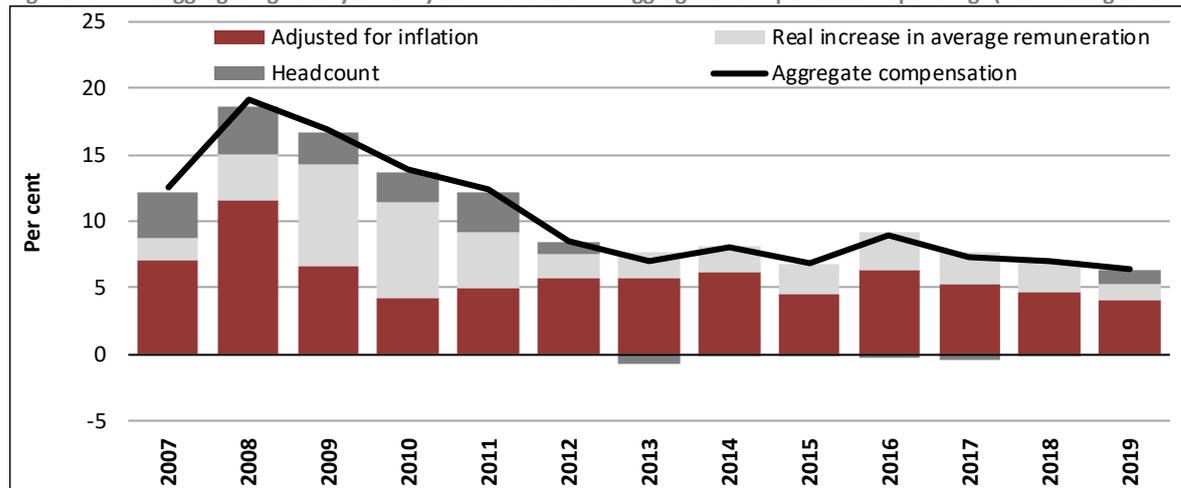


Source: National Treasury

Annual growth in aggregate nominal compensation has varied between 19 per cent in 2008/09 and 6 per cent in 2019/20. In general, inflation adjustments to public servants' remuneration account for 60 per cent of each year's increase, with increases in real remuneration accounting for 30 per cent and changes in personnel numbers accounting for the remainder.

Because personnel numbers have remained largely unchanged over five of the last six years, inflation and real increases in remuneration account for over 95 per cent of the increase in spending over this period. Although real increases in remuneration were fastest in 2009/10 and 2010/11 when occupation-specific dispensations were introduced, average remuneration has continued to rise at an inflation-adjusted rate of over 2 per cent a year in most years.

Figure B.4 Disaggregating the year-on-year increases in aggregate compensation spending (main budget only)



Source: National Treasury

The increase in personnel numbers

Between 2006/07 and 2019/20, total headcounts increased by 16 per cent, from 1.15 million to 1.33 million. Over the same period, Statistics South Africa estimates that the population increased by 21 per cent, which means that the ratio of public servants to population fell overall. Although the increase in personnel numbers is broad-based, employment has grown fastest in the health function, which grew by 32 per cent and is the only function in which the ratio of public servants to population rose. Personnel numbers also rose marginally in 2019/20, due almost entirely to an increase in staff of health departments.

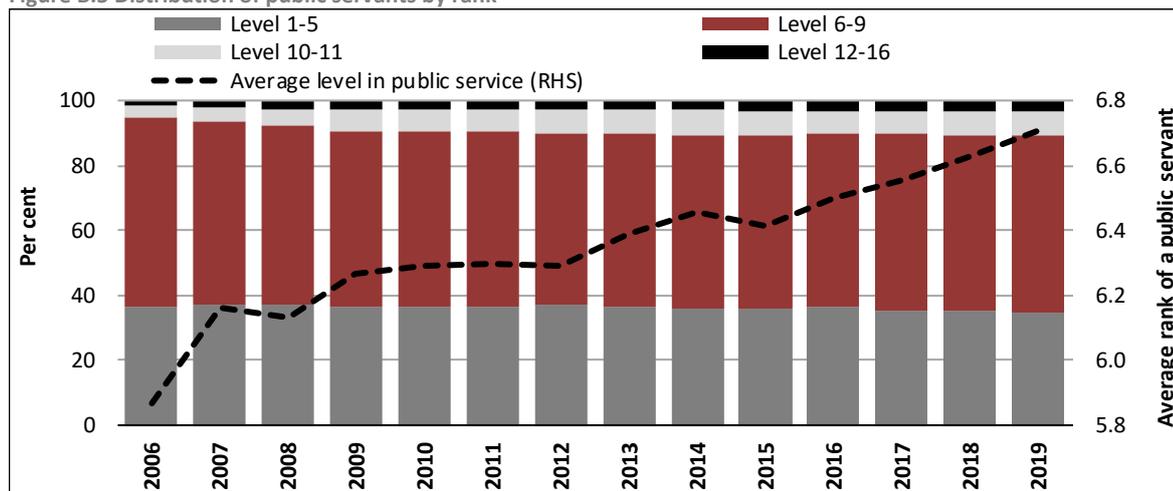
The increase in remuneration

The increase in public-service remuneration has been driven by three main factors:

- The introduction in the late 2000s of occupation-specific wage dispensations, which produced a large, once-off increase to the salaries of skilled staff.
- Annual cost-of-living adjustments to basic pay, which have generally resulted in compensation rising faster than the rate of inflation (except in some cases where adjustments for senior officials were in line with inflation).
- A system of wage progression (within-rank increases offered to staff who perform their duties satisfactorily) and of promotion between ranks, which has resulted in a degree of grade-inflation. This has meant that, on average, the public service is now one full rank more senior today than it was in 2006/07.

The impact of grade-inflation on aggregate compensation costs is magnified by increases in basic pay for each salary level. Between 2006/07 and 2019/20, average remuneration in the public service more than tripled, from R136 000 to over R415 000. In inflation-adjusted terms, this represents a real increase of 45 per cent over the period. The rate of increase has been broadly progressive, resulting in the compression of the distribution of wages.

Figure B.5 Distribution of public servants by rank



Source: National Treasury

Table B.1 Average remuneration by rank, 2006/07 and 2019/20 (main budget, excluding SANDF)

Rands	2006/07 average nominal	2006/07 real average (2019/20 rands)	2019/20 average	Real average annual increase
Level 1-5	71 789	151 405	232 673	3.4%
Level 6-9	155 650	328 269	435 430	2.2%
Level 10-11	313 094	660 322	759 384	1.1%
Level 12-16	508 974	1 073 438	1 222 898	1.0%
Average	135 914	286 646	415 460	2.9%

Source: National Treasury

To assess remuneration fully, it is useful to look at public servants who have been employed by government for many years. About 830 000 public servants employed in 2020 (75 per cent of the total excluding the South African National Defence Force) had been working for government since 2010. Of these, 5 per cent have received real decreases in average remuneration of at least 1 per cent over the period, while another 5 per cent have received increases of between 0 per cent and 19 per cent. Half of all long-term public servants have received real increases of more than 44 per cent over the last 10 years; 25 per cent have received increases above 71 per cent; and a small fraction have seen real increases of over 1 000 per cent.

Part of the reason for these large increases is that long-term employees are likely to have been promoted at least once, and the likelihood is greatest for those in the lowest salary bands. For example, all officials who were in level 1 in 2010 were promoted at least once, with 24 per cent of them enjoying two or more promotions. Similarly, of the 530 000 officials in levels 1 to 7 in 2010, 67 per cent received one promotion and 13 per cent received two or more.

Conclusion

There are 1.3 million employees in national and provincial government who received R567 billion in compensation in 2019/20. Over the last 15 years, public-service compensation spending has grown at an unsustainable rate that is nearly 1.5 percentage points faster than the rate of growth of GDP, largely because of increases in average remuneration. The result is that public-service compensation now accounts for the equivalent of 11 per cent of GDP, up from 9 per cent in 2004/05.