

11

Employment, management and leadership

■ Introduction

Employment, management and leadership in the public sector should support government's Outcome 12: An efficient, effective and development-oriented public service and an empowered, fair and inclusive citizenship. The four related outputs include quality service delivery, human resource management and development, business processes and accountability, and tackling corruption.

The goal: an efficient, effective and development-oriented public service

Meeting these objectives will require attention to several trends:

- Shifts in the composition of expenditure away from personnel will need to be accelerated.
- The level of employee compensation as a percentage of the fiscus: government employee compensation accounts for 10.5 per cent of GDP and 33.6 per cent of consolidated government expenditure. If wage demands continue to rise as a percentage of provincial budgets, there will be less to spend on priorities such as education, health and infrastructure.
- The productivity of the public sector: ensuring that public funds are well spent to ensure value for money and to eliminate waste.
- The occupation-specific dispensation, which needs to be properly managed, and thorough budgeting for all personnel costs.

The public sector forms a major part of the economy. In June 2013, 1.96 million people were employed by the sector, accounting for 10.6 per cent of the labour force and 14.3 per cent of the employed population. Of total state employment, national government employs

In June 2013, 1.96 million people were on public payrolls, accounting for 14 per cent of the employed population

23.0 per cent, provinces employ 55.7 per cent, local government employs 13.9 per cent and other public institutions employ 7.3 per cent.

The National Development Plan (NDP) has identified that in order for the state to play a transformative and developmental role, well-run and effectively coordinated state institutions are needed, with skilled public servants committed to the public good and capable of delivering consistently high quality services while prioritising the nation's developmental objectives. The following are eight areas identified for building a capable and developmental state:

- Stabilise the political-administrative interface
- Make the public service and local government administration careers of choice
- Develop technical and specialist professional skills
- Strengthen delegation, accountability and oversight
- Improve interdepartmental coordination
- Take a proactive approach to improving relations between national, provincial and local government
- Strengthen local government
- Clarify the governance of state-owned enterprises.

This chapter gives an overview of the current state of public service employment with some emphasis on youth employment and budget and expenditure trends, and focuses on a number of leadership and management challenges.

■ Shifts in the composition of expenditure

Government is committed to shifting the composition of spending away from consumption to productive areas of infrastructure and social service delivery, including health and education. However, merely changing the composition of spending does not guarantee improvements in the mix of service delivery outputs. Government is therefore also committed to improving the efficiency and effectiveness with which resources are allocated and used. Institutions such as provincial departments will need to take steps to eliminate waste and improve programme targeting and implementation. This includes tackling inadequate staff capacity that results in the deployment of excess personnel.

Figure 11.1 shows the changing relationship between personnel expenditure compared with other categories of spending between 2000/01 and 2015/16 (with projections for the outer year). Between 2000/01 and 2007/08, the composition of expenditure improved remarkably as significant amounts of money were allocated to classes of expenditure other than compensation of employees.

Figure 11.1 Changing expenditure patterns: growth in expenditure other than compensation of employees, 2000/01 – 2015/16 (consolidated national and provincial government)



Source: National Treasury Budget Review

In 2000/01, spending on classes of expenditure other than compensation of employees grew 2.4 per cent faster than growth in compensation of employees. This rate of increase rose to 4.3 per cent in 2001/02 before falling to 2.7 per cent in 2004/05. Between 2008/09 and 2011/12, the rate of growth in compensation of employees increased faster than expenditure on other classes of expenditure by as much as 5.5 per cent in 2010/11. The 2012/13 financial year was a turning point, with the difference between the rate of growth in personnel and non-personnel expenditure standing at zero. For the 2014 MTEF, the rate of growth in non-personnel expenditure is projected to exceed that of personnel expenditure by an annual average of 1.2 per cent and by as much as 1.7 per cent in 2014/15.

Over the 2014 MTEF, shifts in the composition of expenditure are projected to improve at an average rate of 1.2 per cent per year in favour of classes of expenditure other than compensation of employees.

■ Provincial public service employment

Provincial employment statistics

The September 2014 Bulletin of Statistics published by Stats SA showed provinces as employing just above 1.1 million staff, with 910 502 being fulltime and 205 902 part-time as at 31 March 2014. Table 11.1 shows that at the end of 2013/14 there were 915 569 filled positions in provincial government. There is thus a minor discrepancy between what was reported by Stats SA and by the Vulindlela financial system. One of the factors affecting the accuracy of the latter number is that Free State, Gauteng and North West legislatures do not use government’s PERSAL payroll system.

There are between 910 502 and 915 569 employees in provincial government

Table 11.1 Number of filled positions in provincial government by province and sector, 2010 – 2014

	2010	2011	2012	2013	2014	Percentage average growth: 2010-2014
Headcounts						
Eastern Cape	142 004	144 126	142 175	137 830	135 889	-1.1%
Free State	56 274	57 450	61 163	61 959	61 477	2.2%
Gauteng	147 739	151 151	156 400	156 545	159 720	2.0%
KwaZulu-Natal	186 793	194 472	204 492	209 891	199 802	1.7%
Limpopo	116 151	120 443	122 585	119 079	117 977	0.4%
Mpumalanga	72 253	72 268	72 802	72 395	73 242	0.3%
Northern Cape	22 299	22 871	23 025	22 947	24 025	1.9%
North West	55 473	58 153	58 667	59 682	61 410	2.6%
Western Cape	77 627	78 242	79 517	80 297	82 027	1.4%
Total	876 613	899 176	920 826	920 625	915 569	1.1%
By sector						
Education	491 788	493 426	494 068	489 061	490 884	0.0%
Health	274 711	294 589	310 896	313 782	307 042	2.8%
Social development	18 542	20 903	23 318	25 190	24 350	7.0%
Agriculture	17 765	17 437	17 853	17 506	17 098	-1.0%
Public works, roads and transport ¹	39 247	37 951	37 588	37 066	37 063	-1.4%
Other	34 560	34 870	37 103	38 020	39 132	3.2%
Total	876 613	899 176	920 826	920 625	915 569	1.1%

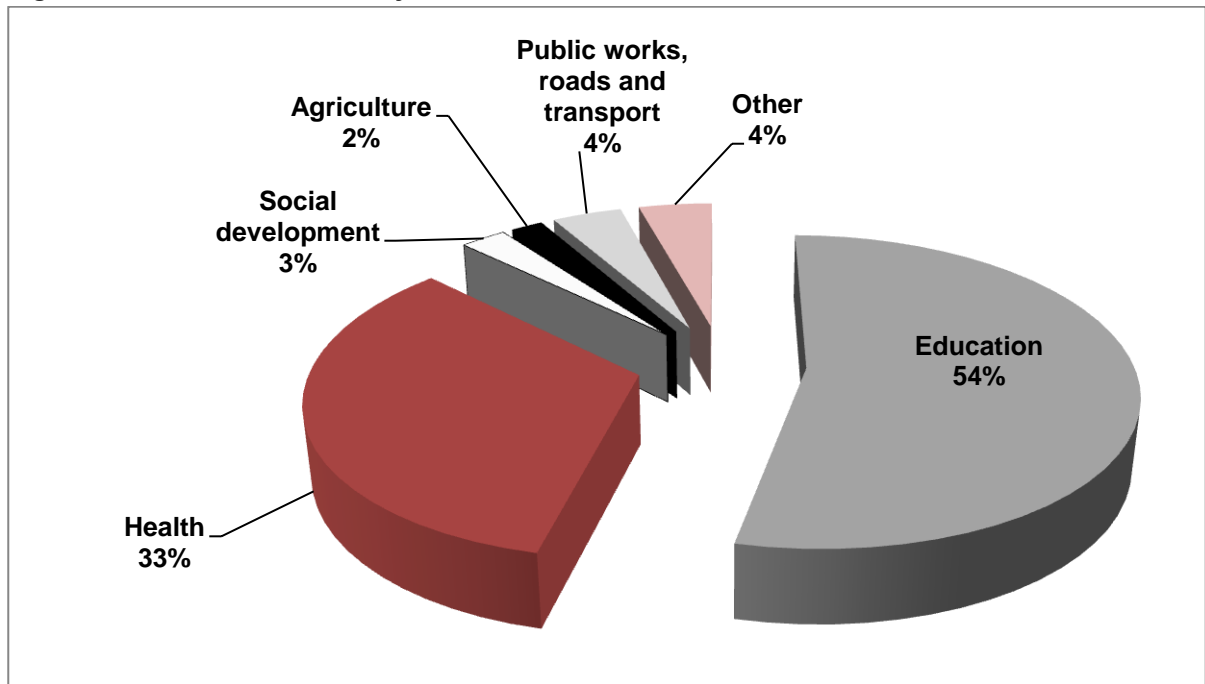
1. Sector may include other departments that are joined together with this sector.

Source: Vulindlela

Given the fiscal constraints, provinces have not filled unfunded vacant posts and have held back from filling funded vacant posts. In some provinces, there is a moratorium on filling posts which are not critical to service delivery. Between 2010 and 2014, personnel numbers in Eastern Cape fell, mainly in education where there was a reduction in the number of temporary educators. In Limpopo, personnel numbers declined between 2012 and 2014 as a result of the headcount census (Stats SA enumeration of educators and learners) conducted at all schools in the province.

The greatest rate of growth has been in the workforce of provinces' social development departments, at an average annual rate of 7.0 per cent between 2010 and 2014. There was a marked increase of 7.2 per cent in the number of health personnel between 2010 and 2011.

Figure 11.2 Personnel share by sector, 31 March 2014



Source: Vulindlela

About 54 per cent of provincial employees are in the education sector. Social development, at 3 per cent, showed the fastest growth between 2008/09 and 2012/13 partly due to the introduction of the OSD for social workers and the policy decision that social work graduates from the scholarship programme could be employed within the NGO sector but remain funded by provincial social development departments. This programme, introduced by the national Department of Social Development in 2007 to address the shortage of social workers, guarantees students work upon completion of their studies.

On average, one employee supports four professionals in provincial departments, and this trend is consistent over the period under review. In five provinces, the ratio between support staff and professionals is 1:3. While this is below the average in provinces such as Northern Cape, it appears a representative ratio as the province finds it difficult to attract skilled people to work in its departments.

The education sector accounts for more than half of the provincial workforce

Table 11.2 Numbers and ratios of essential services staff and administrative and support staff by province, 2012 – 2014

Headcounts	March 2012	March 2013	March 2014	% year on year growth		
				Mar 2012 - Mar 2013	Mar 2013 - Mar 2014	Average annual
Essential Services Staff	723 387	721 570	715 849	-0.3%	-0.8%	-0.5%
Eastern Cape	108 092	103 903	102 847	-3.9%	-1.0%	-2.5%
Free State	46 067	46 268	45 845	0.4%	-0.9%	-0.2%
Gauteng	121 318	121 167	124 511	-0.1%	2.8%	1.3%
KwaZulu-Natal	166 071	169 987	159 938	2.4%	-5.9%	-1.9%
Limpopo	99 132	97 322	96 526	-1.8%	-0.8%	-1.3%
Mpumalanga	54 866	54 691	54 758	-0.3%	0.1%	-0.1%
Northern Cape	16 643	16 473	17 027	-1.0%	3.4%	1.1%
North West	45 843	46 267	47 575	0.9%	2.8%	1.9%
Western Cape	65 355	65 492	66 822	0.2%	2.0%	1.1%
Administrative and Support Staff	197 439	197 414	197 697	0.0%	0.1%	0.1%
Eastern Cape	34 083	33 619	32 848	-1.4%	-2.3%	-1.8%
Free State	15 096	15 631	15 599	3.5%	-0.2%	1.7%
Gauteng	35 082	34 865	34 613	-0.6%	-0.7%	-0.7%
KwaZulu-Natal	38 421	39 567	39 393	3.0%	-0.4%	1.3%
Limpopo	23 453	21 577	21 314	-8.0%	-1.2%	-4.7%
Mpumalanga	17 936	17 634	18 151	-1.7%	2.9%	0.6%
Northern Cape	6 382	6 438	6 950	0.9%	8.0%	4.4%
North West	12 824	13 382	13 768	4.4%	2.9%	3.6%
Western Cape	14 162	14 701	15 061	3.8%	2.4%	3.1%
Ratio:						
Admin and Support:Essential Services	1:4	1:4	1:4			
Eastern Cape	1:3	1:3	1:3			
Free State	1:3	1:3	1:3			
Gauteng	1:3	1:3	1:3			
KwaZulu-Natal	1:4	1:4	1:4			
Limpopo	1:5	1:5	1:4			
Mpumalanga	1:3	1:3	1:3			
Northern Cape	1:3	1:3	1:3			
North West	1:4	1:4	1:4			
Western Cape	1:5	1:5	1:5			

Source: Vulindlela

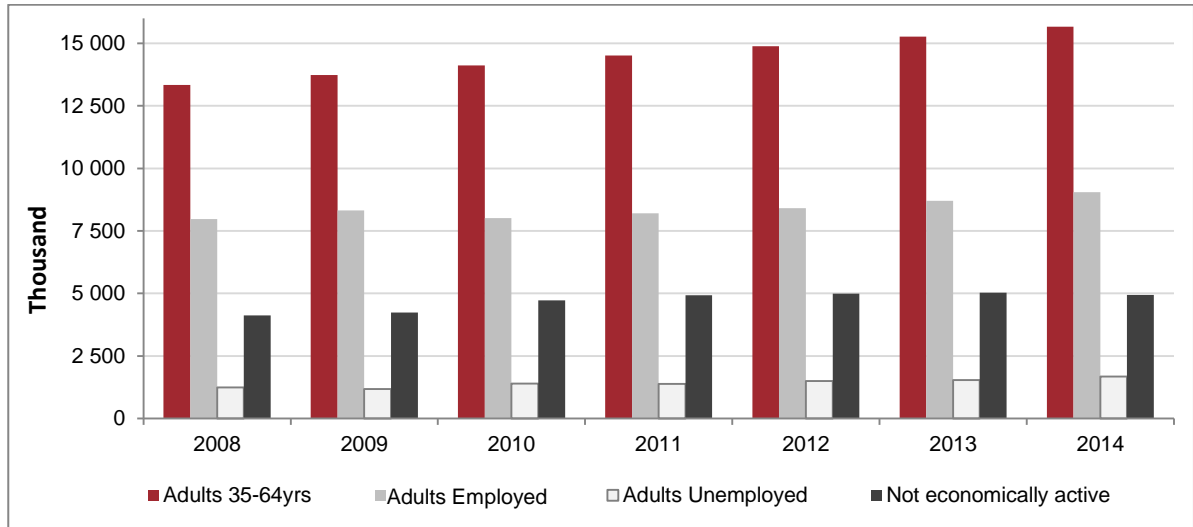
In aggregate, there is no growth in personnel numbers for essential service staff and administrative and support staff. In provinces such as Eastern Cape and Limpopo, the number of essential service staff fell between 2012 and 2014 due to the reduction in temporary educators.

Youth employment

Through a formal public service graduate recruitment scheme and a long-term perspective on training and management, the NDP expects to see the public service becoming a career of choice for first-time entrants to the job market.

As is widely known, unemployment is particularly severe among young people. The first QLFS of 2014 shows the unemployment rate among the youth at 36.1 per cent and among adults at 15.6 per cent.

Figure 11.3 Labour force trend among adults, 2008 – 2014

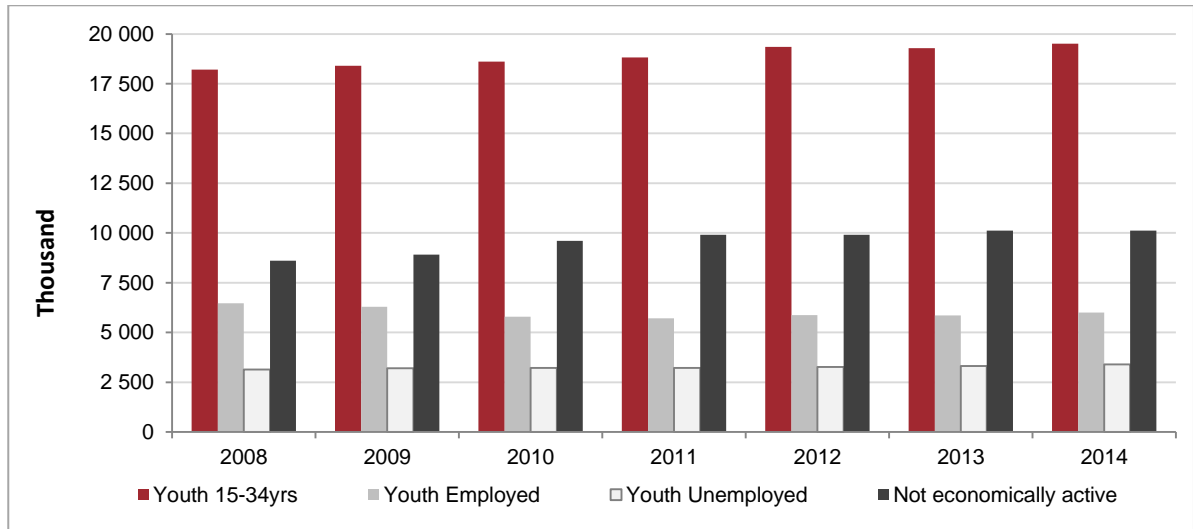


Source: Statistics South Africa

Figure 11.3 above shows that, after being retrenched, adults are more likely to be employed again. They have skills and work experience, may have financial resources from payouts and know how to look for jobs.

While more than half (57.8 per cent) of the adult labour force is employed, Figure 11.4 below shows that only one-third (30.8 per cent) of the youth are employed.

Figure 11.4 Labour force trend among youth, 2008 – 2014



Source: Statistics South Africa

The graph above shows that during the recession, employment declined considerably among the youth and has not yet regained the 2008 level of 6.5 million.

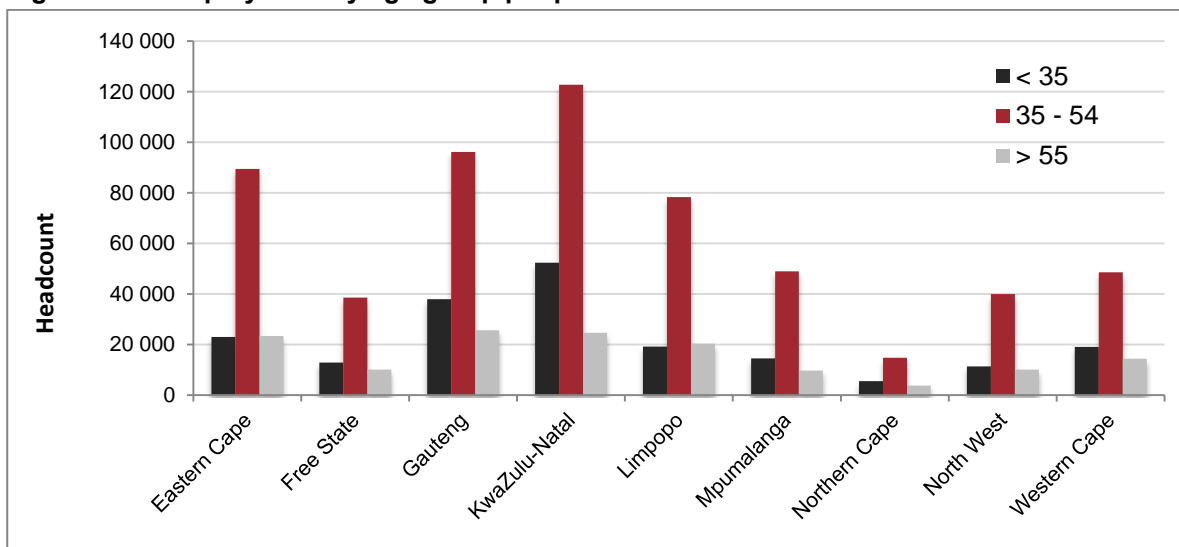
However, as reported in March 2014 there has been an increase of about 1.3 million new entrants into the labour force. At 48.2 per cent, unemployment among the youth is highest in Free State and lowest in Limpopo, where it is 28.6 per cent and below the national unemployment rate. Limpopo is the only province where youth unemployment declined

between 2008 and 2014. Youth unemployment cannot be reduced by the public service alone. For this reason, the Employment Tax Incentive Act (2013) is in place to encourage private sector employers to employ young people by providing a tax incentive to these employers. The aim is to share the costs of youth employment between government and private sector employers.

Only one in five provincial employees is younger than 35

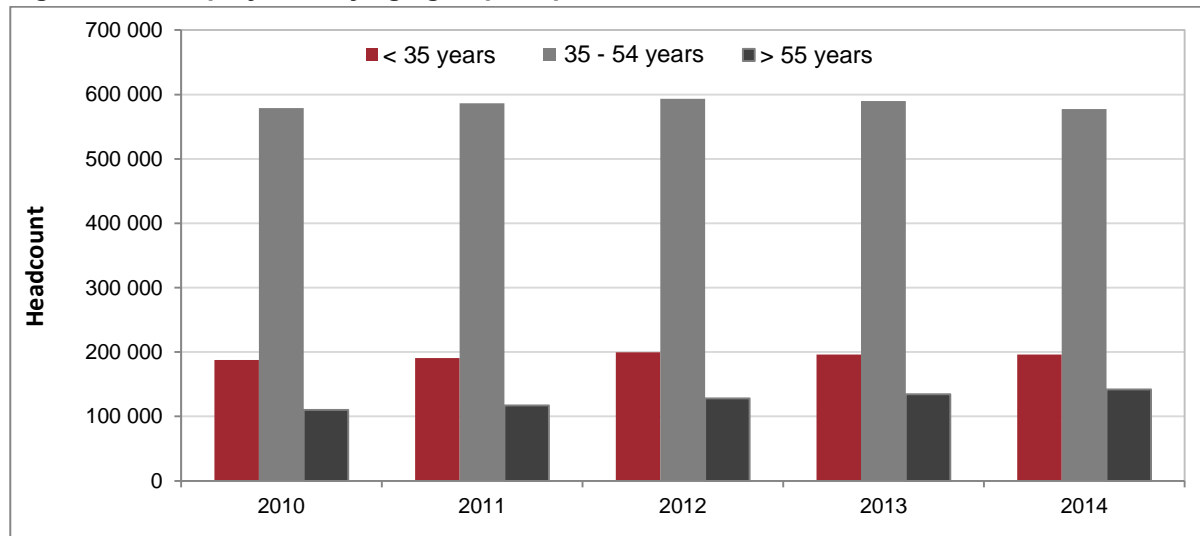
As Figure 11.5 shows, youth are a minority of provincial employees; on average, only 21.4 per cent of total personnel are below the age of 35. This will pose a challenge as the current workforce ages. At the end of the 2013/14 financial year, 15.5 per cent of the workforce were 55 years of age or older. In the case of the health sector, nursing colleges are being revitalised to train more nurses, and the Department of Basic Education is providing bursaries to students who are in the teaching profession.

Figure 11.5 Employment by age group per province as at 31 March 2014



Source: Vulindlela

The graph below shows that the number of provincial employees below 35 years of age decreased between 2013 and 2014, while the number of people in the oldest age group, and therefore approaching retirement age, increased.

Figure 11.6 Employment by age group, all provinces, 2010 – 2014

Source: Vulindlela

Policy developments

The public sector wage bill increased rapidly between 2007/08 and 2010/11, largely due to the 2007 Public Service Coordinating Bargaining Council resolution. This aimed to:

- provide a basis for the annual general salary adjustments for employees
- introduce revised salary structures and other enhancements to attract and retain professionals in certain occupations
- replace the pre-existing scarce skills framework for the public service with revised salary structures
- review non-pensionable allowances
- address discrepancies related to leave
- provide for adjustments to the medical aid subsidy, the housing allowance and the alignment of the public service with the requirements of the Basic Conditions of Employment Act (1997)
- review certain terms and conditions of employment.

The public sector wage bill increased rapidly between 2007/08 and 2010/11

Most of these objectives have now been addressed. Almost all had spending implications that were not budgeted for, placing additional pressure on both the national and provincial fiscus. Over the past five years, most of the additional funding from national government to provinces was related to personnel expenditure.

Upgrade of clerical staff

In 2004, the Minister for Public Service and Administration issued a directive about the need to coordinate the upgrading of occupations found in more than one department. Given the transverse nature of clerical jobs in the public service and therefore the limited scope for defining unique clerical posts which justify different salary grades, a coordination committee was established to develop benchmark job descriptions and grading levels for clerical staff. The result was to cluster them into five broad categories: Human Resources, Finance, Supply Chain Management, Registry and General Administration. It was also decided that two work

levels were necessary for each category: a production and a supervisory level. The outcome of this process is shown in Table 11.3 below.

Table 11.3 Regraded categories for clerical workers

Existing position		Regraded position		
Rank	Salary Level*	Rank	Salary level	Notes
Clerk/Production level/Clerk Grades I to III	Currently graded at salary levels 2, 3, 4	Clerk	5 (minimum salary notch of salary level 5)	<ul style="list-style-type: none"> The absorption of clerks on levels 2, 3 and 4 into level 5 should be done on the basis set out in the Public Service Regulation Chapter 1, Part V C.6.
Clerk/Production level/Senior Clerk Grades I	Currently graded at salary level 5	Clerk	5 (employees keep their current salary notches)	<ul style="list-style-type: none"> The absorption of clerks currently on level 5 into posts on the same level should be done on the basis set out in the Public Service Regulation Chapter 1, Part V C.6 ensuring that they keep their current salaries.
Clerk/Production level/Senior Clerk Grades II	Currently graded at salary level 6 and higher	Clerk	6 (employees keep their current salary notches)	<ul style="list-style-type: none"> Employees are in effect on the grade progression level for salary level 5 in terms of PSCBC Resolution 3 of 2009. Therefore, clerks currently on level 6 should be absorbed into posts salary level 5 keeping their current salaries and salary levels. Posts of production level clerks on level 6 and higher should be phased out as and when they become vacant. No future appointments on such levels will be permitted. Production level clerks currently graded at levels higher than level 6 will be on personal salary notches in terms of Paragraph 14 of the Incentive Policy Framework.
Clerk/Supervisory level/Chief Clerk	Currently graded at salary level 7	Clerk (Supervisory level)	7 (employees keep their current salary notches)	<ul style="list-style-type: none"> The absorption of clerks currently on level 7 into posts on the same level should be done on the basis set out in the Public Service Regulation Chapter 1, Part V C.6 ensuring that they keep their current salaries.
Clerk/Supervisory level/Chief Clerk	Currently graded at salary level 8	Clerk (Supervisory level)	8 (employees keep their current salary notches)	<ul style="list-style-type: none"> Employees are in effect on the grade progression level for salary level 7 in terms of PSCBC Resolution 3 of 2009. Therefore, clerks currently on level 8 should be absorbed into posts at salary level 7 keeping their current salaries and salary levels. Posts of clerks on salary level 8 should be phased out as and when they become vacant. No future appointments on such levels will be permitted.

* All salary notches

Departments are required to create posts in line with the benchmark job descriptions of these work levels. The financial implications of this process over the 2014 MTEF are indicated in table 11.4.

Table 11.4 Number of qualifying clerks and associated costs, 2013/14 – 2017/18

R thousand	2013/14		2014/15	2015/16	2016/17	2017/18
	Number of qualifying clerks	Estimated cost of regrading	Estimated cost of regraded clerks			
Eastern Cape	6 452	259 706	283 109	303 447	324 939	347 623
Free State	4 214	166 766	181 793	194 853	208 653	223 219
Gauteng	7 755	284 448	310 079	332 355	355 894	380 739
Kw aZulu-Natal	12 485	398 536	434 449	465 659	498 640	533 450
Limpopo	3 489	126 791	138 216	148 145	158 638	169 712
Mpumalanga	3 716	124 358	135 564	145 303	155 594	166 456
Northern Cape	4 514	176 226	192 106	205 907	220 490	235 883
North West	1 805	65 100	70 966	76 064	81 451	87 137
Western Cape	2 365	109 060	118 887	127 428	136 453	145 979
Total	46 795	1 710 991	1 865 169	1 999 161	2 140 752	2 290 198

Source: National Treasury provincial database

Regrading of posts at Levels 9 and 11 in line with Resolution 1 of 2012

Resolution 3 of 2009, paragraph 3.6.3.2, states that “the commencing salary for all employees on posts not covered by any [occupation specific dispensation] as per PSCBC Resolution 1 of 2007 and Resolution 3 of 2008, and appointed as Assistant Directors and Deputy Directors, shall with effect from 1 July 2010 be on Level 9 and 11, respectively”. In implementing this circular and to eliminate overlaps between salary levels, the DPSA revised the job weight ranges with effect from 1 October 2011. This meant that job grades would have to be reconsidered in terms of these revised ranges. This applied to Levels 9/10 and Levels 11/12.

The circular allowed employees serving in posts graded on salary levels 10 and 12 since the implementation of Resolution 3 of 2009 to 31 July 2012 to be automatically absorbed into the regraded posts with effect from 1 August 2012. The circular clearly indicated that funding for the implementation of the regrades must be defrayed from departmental budgets. This means that provincial departments have to reprioritise funds back to their compensation of employees budgets, as these posts existed before implementation of Resolution 3 of 2009.

Occupation-specific dispensation (OSD)

OSDs were designed to improve the ability of the public service to attract and retain a range of skilled employees. Salaries were aligned to the market to ensure fair, equitable and competitive remuneration structures. The OSD for health workers started in July 2007 and for social workers and the education sector in April 2008. Other public service professionals who benefit include legal professionals in the justice cluster, correctional officials, engineers, architects and environmentalists.

Occupation-specific dispensations began in the health sector in 2007

Table 11.5 shows that, between 2010/11 and 2016/17, provinces spent more than R160 billion on OSD posts.

Table 11.5 Additional funding to the provincial equitable share for the occupation-specific dispensation by category

R thousand	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
2005 MTEF	2 750 783	2 902 076	3 047 180	3 214 775	3 415 122	3 609 458	3 806 301
Educators	2 605 133	2 748 415	2 885 836	3 044 557	3 234 295	3 418 342	3 604 762
Social workers	145 651	153 661	161 344	170 218	180 827	191 116	201 539
2007 MTEF	7 516 314	7 929 711	8 326 197	8 784 138	9 331 571	9 862 580	10 400 438
Educators	5 410 314	5 707 881	5 993 275	6 322 905	6 716 953	7 099 179	7 486 334
Health professionals	2 106 000	2 221 830	2 332 922	2 461 232	2 614 618	2 763 402	2 914 104
2008 MTEF	1 420 000	1 498 100	1 573 005	1 659 520	1 762 943	1 863 262	1 964 876
Educators	1 200 000	1 266 000	1 329 300	1 402 412	1 489 811	1 574 588	1 660 458
Social workers	220 000	232 100	243 705	257 109	273 132	288 674	304 417
2009 MTEF	2 100 000	2 600 000	2 730 000	2 880 150	3 059 643	3 233 751	3 410 104
Health professionals	2 100 000	2 600 000	2 730 000	2 880 150	3 059 643	3 233 751	3 410 104
2010 MTEF	4 631 000	4 302 000	4 324 000	4 561 820	4 846 116	5 121 882	5 401 205
Educators	3 000 000	3 000 000	3 000 000	3 165 000	3 362 245	3 553 572	3 747 367
Health professionals (Adjustments)	350 000	-	-	-	-	-	-
Health professionals	1 281 000	1 302 000	1 324 000	1 396 820	1 483 871	1 568 310	1 653 838
2011 MTEF	-	2 073 000	2 345 000	2 575 000	2 735 476	2 891 137	3 048 806
Educators	-	1 600 000	1 800 000	2 000 000	2 124 641	2 245 543	2 368 004
Health professionals	-	473 000	545 000	575 000	610 834	645 594	680 801
2014 MTEF	-	-	-	-	-	-	72 000
Education therapists	-	-	-	-	-	-	72 000
Total	18 418 097	21 304 887	22 345 382	23 675 403	25 150 870	26 582 069	28 103 729

Source: National Treasury provincial database

Uneven OSD implementation at provincial level is the result of erroneous costings by departments

Implementation of the OSDs has been uneven at provincial level, with problems emerging in the remuneration of nurses and educators. The nurses' dispensation was not costed properly, and funds allocated for doctors were used to cover this shortfall. Several provinces overpaid nurses, resulting in over expenditure on employee compensation in the health sector. Similar problems emerged in education, leading to over expenditure and additional allocations. These problems are rooted in poor-quality human resources data, which led to incorrect classification of personnel.

Table 11.6 shows the number of employees benefitting from the OSD as at 31 March 2014.

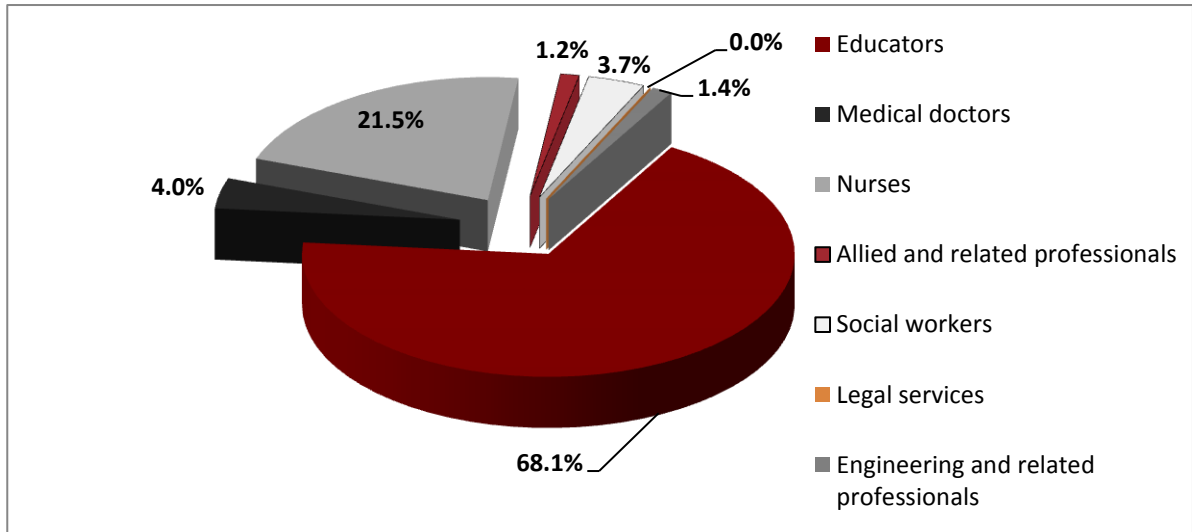
Table 11.6 Number of persons receiving occupation-specific dispensation by category as at 31 March 2014

Headcount	2012	2014							Total
		Educators	Medical doctors	Nurses	Allied and related professionals	Social workers	Legal services	Engineering and related professionals	
Eastern Cape	91 884	60 818	3 573	19 186	1 098	3 343	21	1 209	89 248
Free State	37 143	24 160	3 163	7 071	927	844	16	501	36 682
Gauteng	98 796	62 781	7 799	26 091	3 453	2 563	38	975	103 700
KwaZulu-Natal	136 836	90 984	8 562	33 560	2 800	2 766	49	1 579	140 300
Limpopo	84 384	57 169	3 877	18 094	1 847	1 967	28	1 318	84 300
Mpumalanga	45 988	33 959	1 957	8 356	872	1 260	22	617	47 043
Northern Cape	13 845	9 398	1 210	2 501	444	580	18	171	14 322
North West	37 077	26 173	1 984	8 288	563	1 318	27	618	38 971
Western Cape	52 277	31 690	5 355	12 628	1 733	1 504	25	753	53 688
Total	598 230	397 132	37 480	135 775	13 737	16 145	244	7 741	608 254

Source: Vulindlela

The number of OSD appointed persons has increased by 10 024 since March 2012. The majority are health professionals (4 570 nurses and 2 551 doctors) and social workers. It is encouraging to see that provinces are increasingly attracting scarce skills such as engineering and related professions, with the number increasing from 4 959 in 2011 to 7 741 in 2014.

Figure 11.7 Percentage share of persons receiving occupation-specific dispensation, March 2014



Source: Vulindlela

Budget and expenditure trends

The public sector wage bill has increased by more than 5 per cent above inflation every year since 2007/08. The rate of growth of provincial expenditure on employee compensation peaked at 21.1 per cent in 2008/09; this was as a result of the OSD for nurses and educators.

The occupation-specific dispensation contributed to a sharp increase in the provincial wage bill

Table 11.7 Provincial expenditure on compensation of employees by province, 2010/11 – 2016/17

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
R million	Outcome			Outcome	Medium-term estimates		
Eastern Cape	31 409	34 442	35 919	38 226	40 171	42 380	44 646
Free State	12 440	14 037	15 427	16 456	18 141	19 227	20 248
Gauteng	32 736	37 034	39 986	44 287	48 869	53 607	56 644
KwaZulu-Natal	39 373	46 099	49 785	54 546	58 430	62 488	66 059
Limpopo	26 514	29 345	31 548	33 760	36 115	38 017	40 008
Mpumalanga	15 353	17 003	18 345	19 858	21 897	23 290	24 673
Northern Cape	5 044	5 552	6 030	6 700	7 333	7 752	8 150
North West	12 609	14 071	15 293	17 085	18 292	19 410	20 696
Western Cape	17 991	19 867	21 644	23 499	26 016	28 048	29 724
Total	193 470	217 451	233 977	254 417	275 263	294 219	310 847
Percentage of total expenditure							
Eastern Cape	65.0%	64.1%	64.0%	62.9%	64.6%	65.7%	67.6%
Free State	59.3%	59.1%	60.2%	60.1%	65.0%	63.9%	67.0%
Gauteng	53.3%	54.7%	54.2%	57.3%	56.2%	56.6%	57.2%
KwaZulu-Natal	58.2%	58.6%	58.1%	59.3%	60.4%	61.0%	62.5%
Limpopo	64.2%	67.9%	69.0%	72.4%	70.2%	71.1%	71.9%
Mpumalanga	58.6%	57.8%	58.5%	58.9%	60.0%	59.4%	60.5%
Northern Cape	54.3%	51.2%	53.7%	51.0%	55.9%	55.8%	58.8%
North West	57.6%	57.7%	60.0%	56.7%	57.6%	56.6%	58.7%
Western Cape	52.8%	53.8%	54.1%	53.8%	54.3%	54.2%	55.8%
Total	58.4%	59.0%	59.2%	59.9%	60.6%	60.7%	62.2%

Source: National Treasury provincial database

On average, compensation of provinces' employees makes up 61.2 per cent of the total provincial budget over the MTEF period, and amounts to an estimated 7.2 per cent of GDP in 2014/15. Although personnel numbers fell in the period under review, the share of total provincial expenditure assigned to personnel continues to increase. Between 2014/15 and 2016/17, as a percentage of provincial expenditure, the personnel share is highest in Limpopo (averaging 71.1 per cent) and lowest in Western Cape (averaging 54.8 per cent).

All departments are required to budget 5.5 per cent plus 1 per cent for salary increases in 2014/15. However, education's personnel budget grows by only 5.7 per cent during this period; this will not be adequate to include the additional 1 per cent.

Sectoral spending on compensation

Compensation has been increasing at a rate higher than CPI inflation for several years

Compensation increased at a significantly higher rate than consumer price index (CPI) inflation over the past three years. Due to the filling of funded vacant posts, the compensation growth rate for all sectors except education continues to exceed CPI inflation in 2014/15. Provinces project to have 1 033 729 employees by the end of the 2014/15 financial year, compared with 915 569 on 31 March 2014. However, this is unlikely to be the case as the personnel budget is not growing sufficiently to enable this. As the growth rate in education budgets is lower than the projected CPI inflation for 2014/15, they will come under pressure as accelerated OSD pay progression in this sector is to be implemented every second year.

Table 11.8 Provincial expenditure on compensation of employees by sector, 2010/11 – 2016/17

R million	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	Outcome			Outcome	Medium-term estimates		
Education	109 761	122 140	129 870	139 422	147 583	157 857	166 831
<i>Percentage growth</i>		11.3%	6.3%	7.4%	5.9%	7.0%	5.7%
Health	58 907	67 834	74 212	81 877	89 627	95 562	100 683
<i>Percentage growth</i>		15.2%	9.4%	10.3%	9.5%	6.6%	5.4%
Social development	3 864	4 554	5 119	5 862	6 661	7 289	7 736
<i>Percentage growth</i>		17.8%	12.4%	14.5%	13.6%	9.4%	6.1%
Agriculture	3 473	3 824	4 123	4 429	4 795	5 077	5 382
<i>Percentage growth</i>		10.1%	7.8%	7.4%	8.3%	5.9%	6.0%
Public works and transport	7 099	7 728	8 055	8 862	10 379	11 188	11 954
<i>Percentage growth</i>		8.9%	4.2%	10.0%	17.1%	7.8%	6.8%
Other	10 366	11 372	12 597	13 964	16 218	17 247	18 261
<i>Percentage growth</i>		9.7%	10.8%	10.9%	16.1%	6.3%	5.9%
Total	193 470	217 451	233 977	254 417	275 263	294 219	310 847
Percentage growth		12.4%	7.6%	8.7%	8.2%	6.9%	5.7%
Headline CPI inflation	3.8%	5.6%	5.6%	5.8%	6.2%	5.7%	5.5%

Source: National Treasury provincial database

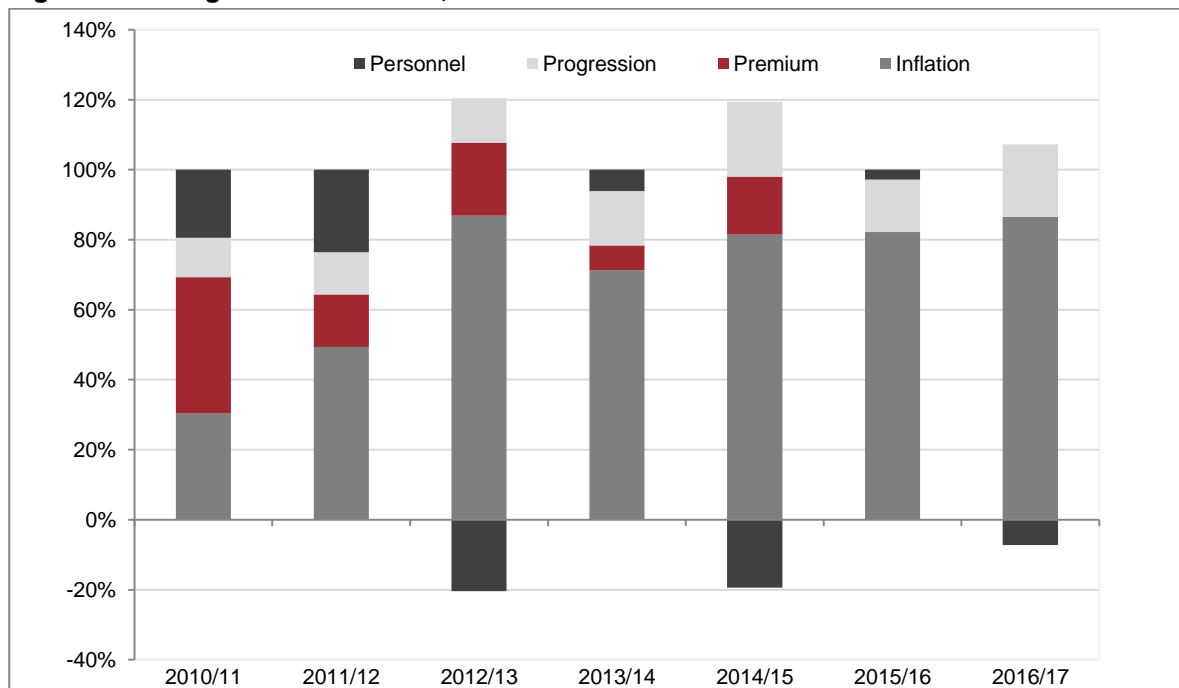
Compensation of employees in Administration

Between 2010/11 and 2013/14, compensation expenditure in the provinces' administration programmes grew more slowly than in the key service delivery programmes, on average making up 4.6 per cent of the total provincial budget over the MTEF. This indicates that the provinces are making a substantial effort to prioritise service-delivering personnel when filling vacant posts. However, some provinces spend above the average on administration. This is due to the number of office-based personnel in this programme and to the practice of paying line function management salaries under this programme. This is common in education, where in many cases a general manager (Chief Director) is responsible for managing Further Education and Training and Adult Education and Training programmes. It is administratively easier to compensate that person from administration. However, this is not supported by the existing financial system, which is unable to divide personnel costs among programmes. To address such issues, the education and health budget and programme structures have sub-programmes within administration relating to the management of the department as a whole.

A high proportion of office staff raises administration costs and undermines effective service delivery

Wage bill cost drivers

Major drivers of the growth in employee compensation are wage settlements, growth in the number of personnel, and progressions and promotions.

Figure 11.8 Wage bill cost drivers, 2010/11 – 2016/17


Source: National Treasury

The growth in employee compensation has been dominated by cost of living adjustments and the increase in personnel numbers. If not properly managed, promotions and upgrading of posts can add immense costs to the fiscus. The provinces will need increasingly to find trade-offs between progression and promotions, within available budgets. Cost of living adjustments are by far the largest drivers of wage bill growth. Their significance becomes more pronounced with the implementation of multi-year wage agreements under conditions of binding budget constraints. The most significant source of risk for the wage bill is wage settlements.

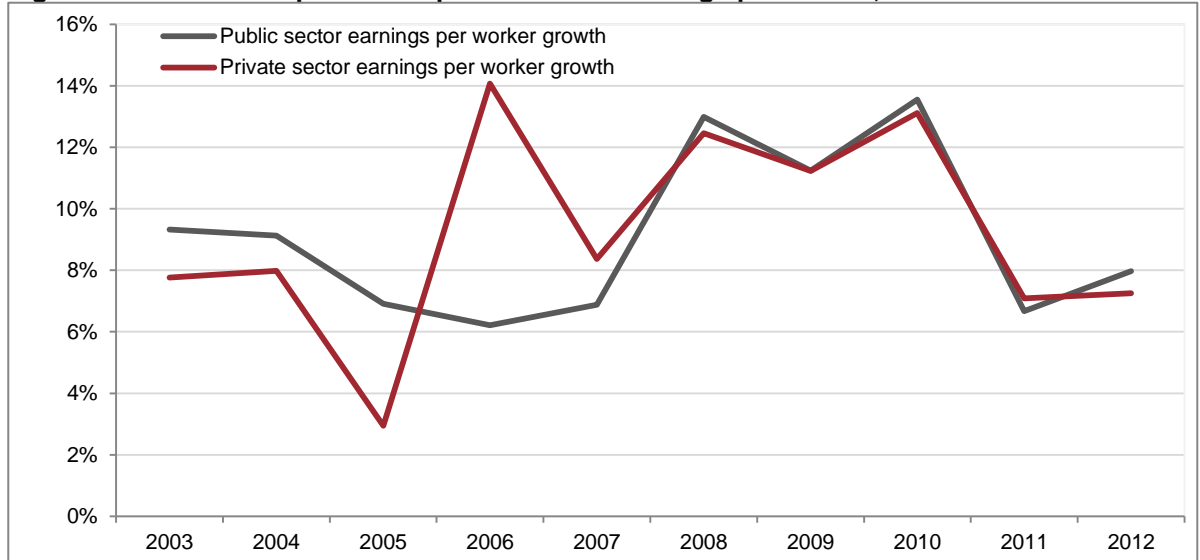
Public sector productivity and earnings

While public sector earnings have increased persistently over the past few years, the growth in productivity has remained sluggish.

Earnings growth

Across the public sector, earnings per employee grew by 13.0 per cent in 2008 and 13.6 per cent in 2010, falling to 6.7 per cent in 2011 before increasing to 8.0 per cent in 2012. Since 2008, these growth rates are comparable to those in the private sector. Between 2005 and 2007, the rates in the private sector had been faster. The table below indicates this.

Figure 11.9 Growth in public and private sector earnings per worker, 2003 – 2012

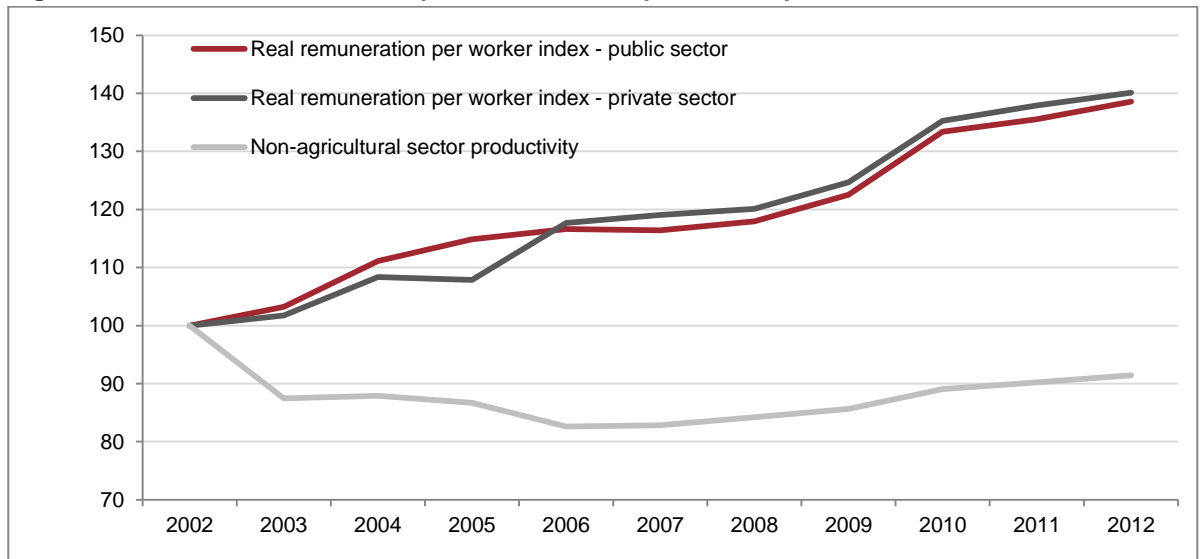


Source: South African Reserve Bank

Productivity growth

Productivity in the non-agricultural sector has declined since 2000, although the period from 2007 has seen a slight improvement. In contrast, real remuneration per worker in both the private and public sectors has increased over the same period, with remuneration per worker in the public sector growing faster than that in the private sector between 2002 and 2007. Since then, this trend has reversed, with faster growth in real remuneration per worker in the private sector.

Figure 11.10 Real remuneration per worker in the public and private sectors, 2002 – 2012



Source: South African Reserve Bank

The divergence between growth in non-agricultural sector productivity and real remuneration per worker suggests that labour is being remunerated beyond its productive capacity.

The divergence between non-agricultural sector productivity and real remuneration per worker suggests that labour is on average being remunerated beyond its productive capacity. If this trend continues, it will make the economy uncompetitive, place a strain on economic growth and encourage employers to substitute capital for labour. In the public sector, this trend negatively affects value for money.

Poor personnel management contributes to unsatisfactory service delivery

■ Leadership and management challenges

Poor personnel management in the provinces has contributed to unsatisfactory service delivery such as medicine stock-outs at health facilities and shortages or non-delivery of textbooks and stationery at schools. The NDP identifies stabilisation of the political-administrative interface as one of the eight areas required to build a capable and developmental state. The issue has led to instability in a number of provinces including Eastern Cape, Free State, Gauteng, Mpumalanga and Limpopo, particularly in the health sector. This has resulted in heads of department leaving before the expiry of their five-year contracts. In one instance, a health department has had three heads of department in the past five years; this inevitably leads to instability and poor performance. Problems at the political-administrative interface often occur when an incoming MEC finds the head of department already in position. To address the issue of instability in the political-administrative interface, the NDP proposes the following:

- Strengthen the role of the Public Service Commission to champion norms and standards, and monitor recruitment processes
- Create an administrative head of the public service with responsibility for managing the career progression of heads of department, including convening panels for recruitment, performance assessments and disciplinary procedures
- Use a hybrid approach to top appointments that allows for the reconciliation of administrative and political priorities
- Use a purely administrative approach for low-level appointments, giving senior officials full authority to appoint staff in their departments.

High turnover of department heads leads not only to instability and lack of leadership but to weak management of human resources and lack of communication between human resource management and financial management. As a result, unbudgeted vacancies are filled in labour-intensive departments, leading to overspending.

Departments need to budget adequately for personnel

Provincial departments must budget adequately for personnel. This is not easy, as the precise number of employees is not always known, particularly in departments that have regional and district offices; and annual headcount audits are not always done, as they should be.

Given that compensation accounts on average for 61 per cent of the total provincial budget, poor personnel management is a threat to the provincial fiscus. An example is instances in provincial education departments of double parking of educators due to educators who are on temporary incapacity leave; this should be dealt with in terms of the Policy and Procedure on Incapacity Leave and Ill-health Retirement (PILIR). There

are instances of employees being on incapacity or temporary disability leave for a number of years. Funds spent in this way could have been channelled to service delivery. Considerable efforts have been made in recent financial years to deal with such issues; however, there is room for more progress.

■ Conclusion

It is government's aim to create 5 million jobs by 2020. However, it will be difficult to meet this target if the public service wage bill grows beyond a sustainable level.

Education and health account for 86 per cent of total provincial personnel expenditure and for 52 per cent of aggregate provincial spending. If personnel in these sectors are well managed, improved financial management and better service delivery will result.

Linking wage growth to productivity is crucial to achieving an efficient, effective and development-oriented public service. Government and unions need to work together to create a motivated, committed workforce that will improve the quality of public services. The next round of wage negotiations needs to focus more on implementation of the Public Service Charter and linking improvements in conditions of service to public servants' productivity. In the meantime, government will continue to root out wastage and corruption. Government should not and does not have a target for the share of compensation of employees within total expenditure or GDP. Remuneration budgets will be driven by the mandate of government and the need to fill critical posts in key sectors. Continued investment in human resource development will promote a well-educated, healthy and more productive workforce.

Achieving an effective, efficient public service requires a stronger link between wage growth and productivity

One of the reforms being driven by the DPSA is the PERSAL clean-up. This is aimed at abolishing unfunded vacancies and in this way to improve the accuracy of vacancy rates on the PERSAL system. This exercise needs to be done yearly to ensure that posts not filled in a particular financial year are not in PERSAL. Another method of verifying personnel numbers, improving personnel budgeting and management and eliminating wastage is the headcount survey recommended for labour-intensive departments such as education and health. Both the census method (used in the Limpopo department of education by Stats SA) and biometric studies (as carried out in the Northern Cape education department) have yielded good results.

The National Treasury has developed a personnel forecasting tool for provincial departments that accommodates all of the OSDs implemented since 2007. This will assist provincial departments to correctly cost their workforces and will enable treasuries to monitor appointments carried out in accordance with existing salary levels on PERSAL Key Tables. Once the model is populated with such information, the tool will produce exception reports. The DPSA has issued a circular to national and provincial departments stating that it is not permissible to appoint new employees on personal notches at public service salary levels 9 and 10. To support this circular, PERSAL has been configured not to accept new appointments of this type.

