

B

Compensation data

■ Introduction

The compensation of public servants accounts for a large and growing proportion of consolidated spending. Between 2006/07 and 2017/18, compensation rose from 32.8 per cent to 35.2 per cent of all spending, and from 53.7 per cent to 58.1 per cent of current spending (see Table B.1). Over the period, compensation spending was one of the fastest-growing items in the budget, increasing at an average of 11.2 per cent a year.

Analysis of compensation spending since 2006/07 reveals the following trends:

- The main driver of increased spending is large increases in wages and other employee benefits, rather than increases in employment.
- The increase in average real wages is partly explained by above-inflation agreements reached between government and unions, but wage progression and promotion policies account for a considerable proportion of the rise.
- Wages have increased most rapidly in the lowest ranks of the public service, compressing wage distribution.
- Overall, the number of public servants has increased since 2006/07. Employment peaked in 2012/13, after which personnel numbers have fallen by just over 1 per cent. This decline is insufficient to contain real spending growth due to continued growth in real wages.
- There is a significant amount of turnover in the public service, with as many as 6 per cent of personnel leaving in a given year.

Table B.1 Consolidated spending

| R million | 2006/07 Outcome | 2017/18 | Annual growth | % of 2006/07 spending | % of 2017/18 spending |
|--------------------------------------|--------------------|------------------|---------------|--------------------------|--------------------------|
| Current payments | 317 280 | 939 735 | 10.4% | 61.2% | 60.6% |
| Compensation of employees | 170 288 | 546 194 | 11.2% | 32.8% | 35.2% |
| Goods and services | 91 506 | 223 521 | 8.5% | 17.7% | 14.4% |
| Interest and rent on land | 55 486 | 170 020 | 10.7% | 10.7% | 11.0% |
| Transfers and subsidies | 171 241 | 507 740 | 10.4% | 33.0% | 32.8% |
| Payments for capital assets | 28 491 | 81 746 | 10.1% | 5.5% | 5.3% |
| Payments for financial assets | 1 435 | 20 318 | 27.2% | 0.3% | 1.3% |
| Total | 518 447 | 1 549 538 | 10.5% | | |
| GDP | 1 911 150 | 4 720 955 | 8.6% | | |

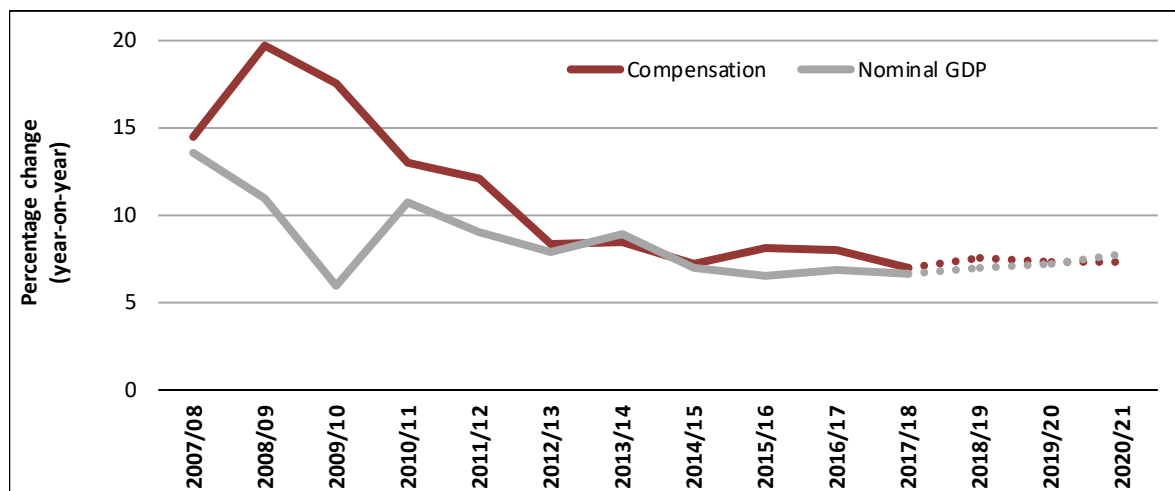
Source: National Treasury (budget data)

Because nominal GDP has grown more slowly than government spending, the share of the economy represented by consolidated expenditure rose from 27.1 per cent to 32.8 per cent between 2006/07 and 2017/18. As a share of GDP, compensation spending rose from 8.9 per cent to 11.6 per cent. Overall,

increases in compensation spending and interest payments account for nearly 50 per cent of increased spending by government over the period.

Although compensation has grown more quickly than nominal GDP in every year except 2013/14, the 2018 MTBPS projects a reversal of this trend by 2020/21.

Figure B.1 Annual growth of compensation spending and nominal GDP



Sources: National Treasury (budget data)

Rising compensation spending has changed the composition of public expenditure, compressing budgets for goods and services and capital expenditure. Compensation spending accounted for nearly 70 per cent of provincial government budgets¹ in 2017/18, up from 66 per cent in 2006/07. The largest increases occurred in provincial health departments. Provincial education departments, which spend about 85 per cent of their budgets on wages, did not see as rapid an increase. This was partly because a large number of employees attached to Technical Vocational Education and Training (TVET) colleges were transferred to the Department of Higher Education and Training (DHET) in 2015, which took over responsibility for their compensation.

Drivers of growth in compensation spending

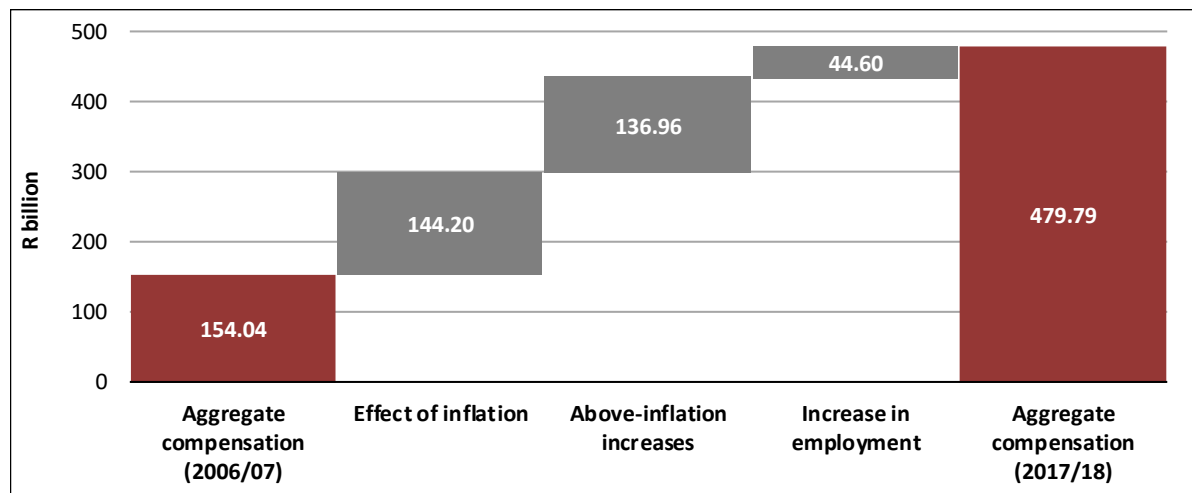
This section considers compensation spending on the main budget, which is administered through a common payroll system (PERSAL), and does not include spending on compensation by public entities included in the consolidated budget. Between 2006/07 and 2017/18, compensation spending on the main budget more than tripled from R154 billion to R480 billion.²

In inflation-adjusted (real) terms, compensation spending increased by 61 per cent, from R298 billion in 2006/07 to R480 billion in 2017/18 (in 2017 rands). Inflation accounts for just over 40 per cent of the increase in compensation spending. The rest of the increase stems from a rise in employment and above-inflation increases in remuneration (Figure B.2).

¹ Excluding transfers and subsidies.

² Unless otherwise noted, all employee statistics refer to full-time equivalent employees, so that individuals are included in proportion to the time spent in government's employ in each financial year. The South African National Defence Force (SANDF) uses a separate payroll system that does not have all the fields used in PERSAL, so where the relevant data are unavailable, the SANDF has been excluded from the analysis.

Figure B.2 Drivers of higher compensation spending

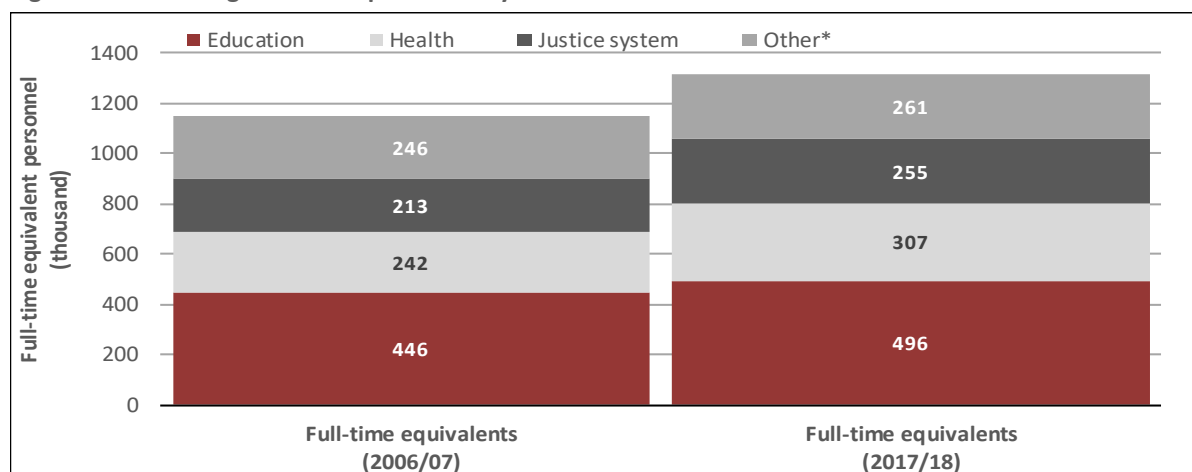


Source: National Treasury (PERSAL data)

Employment trends

Between 2006/07 and 2017/18, the number of personnel in the public service rose from under 1.2 million to just over 1.3 million, an increase of about 15 per cent. Health was the fastest-growing sector over the period (Figure B.3). Provinces accounted for the majority of personnel growth (Table B.2).

Figure B.3 Increasing number of personnel by sector



* Includes South African National Defence Force

Sources: National Treasury (PERSAL data) and Department of Defence (PERSOL data)

Gauteng accounts for nearly 30 per cent of the increase in public-service employment. Over 90 per cent of the Gauteng increase reflects hiring in the departments of health and education. Although the rate of increase was slower in KwaZulu-Natal, it too registered a significant increase in personnel, almost all of whom were employed in health and education. Only in Limpopo and North West did personnel decline.

The increase in national departments' personnel – almost 40 per cent of the total – is partly explained by the transfer of over 20 000 personnel from provincial education departments to DHET. In addition, personnel numbers in the South African Police Service grew from 155 000 to over 190 000.

Two distinct trends are apparent between 2006/07 and 2017/18: headcounts generally rose between 2006/07 and 2011/12, and then stabilised or fell between 2011/12 and 2017/18 in response to tightening budgets. This shift is particularly evident at the provincial level.

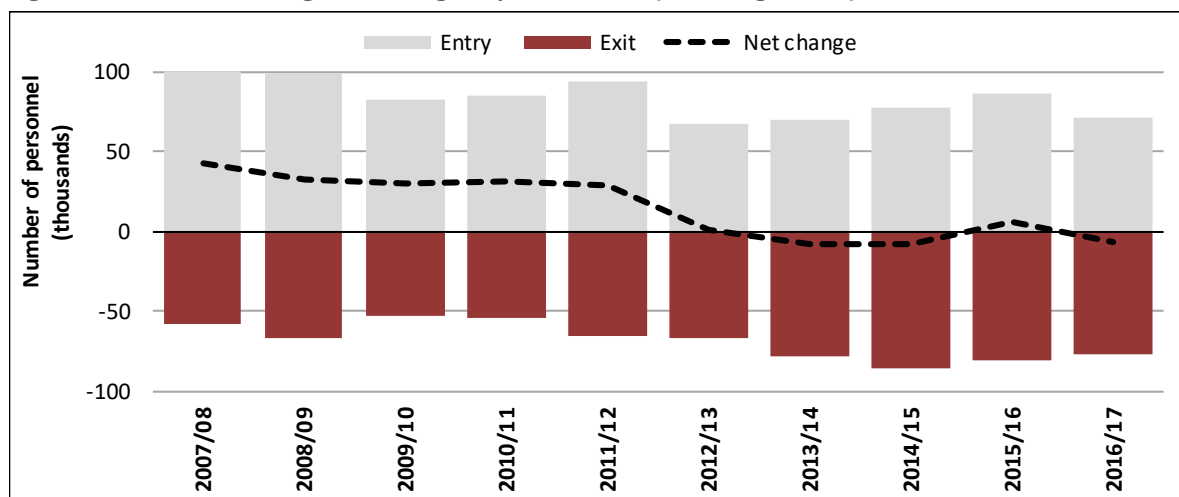
Table B.2 Personnel changes

| | FTEs* (2006/07) | Change (2006/07 - 2011/12) | Change (2011/12 - 2017/18) | FTEs* (2017/18) |
|----------------------|------------------|-------------------------------|-------------------------------|------------------|
| Eastern Cape | 119 734 | 19 546 | -11 789 | 127 490 |
| Free State | 55 876 | 6 319 | -5 562 | 56 632 |
| Gauteng | 118 222 | 37 270 | 13 175 | 168 666 |
| KwaZulu-Natal | 167 026 | 42 601 | -17 340 | 192 287 |
| Limpopo | 116 556 | 3 491 | -11 314 | 108 733 |
| Mpumalanga | 58 455 | 15 141 | -2 190 | 71 406 |
| Northern Cape | 17 536 | 5 479 | 1 520 | 24 534 |
| North West | 64 439 | -5 091 | 501 | 59 849 |
| Western Cape | 70 584 | 9 956 | 2 139 | 82 679 |
| National departments | 358 510 | 54 402 | 13 250 | 426 163 |
| Total | 1 146 936 | 189 114 | -17 611 | 1 318 439 |

*FTE: Full-time equivalent

Source: National Treasury (PERSAL data)

Changes in total employment in the public service depend on the difference between the number of employees leaving the public service and the number of new appointments made. There is a relatively high level of turnover in the public service, with about 6 per cent of employees leaving every year for various reasons including the conclusion of their contracts, resignation, retirement and death.

Figure B.4 Officials entering and leaving the public service (excluding SANDF)

Source: National Treasury (PERSAL data)

Remuneration trends

In real terms, per capita remuneration in the public service rose by 3.1 per cent a year, from R263 000 in 2006/07 to R364 000 in 2017/18 (in 2017 rands). Two distinct dynamics influenced this pattern: above-inflation cost-of-living adjustments (including the establishment of occupation-specific salary dispensations), and wage progression and promotion policies within the public service.

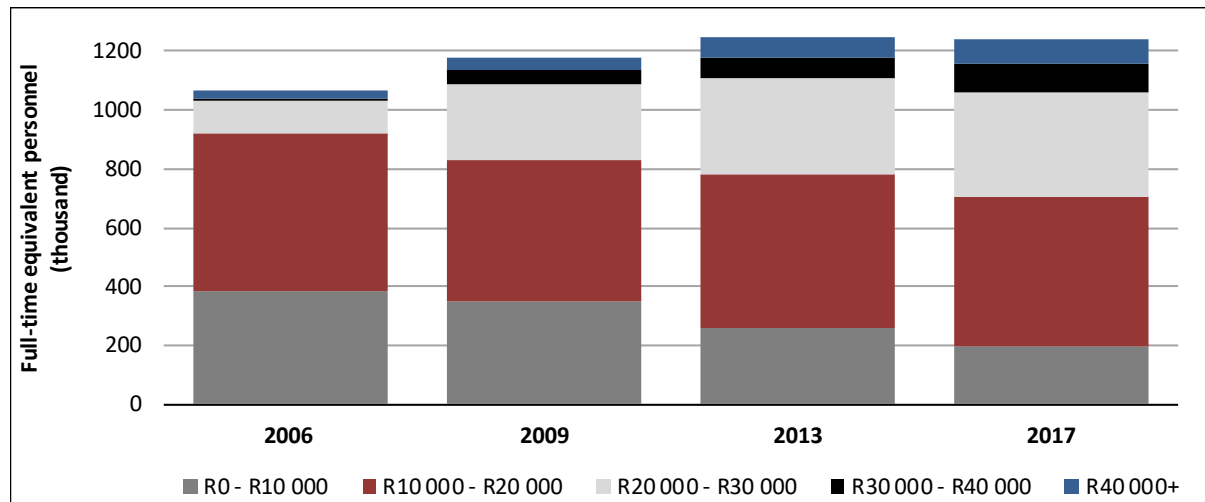
While wage agreements have granted consistent real increases, the average rank of public servants has also tended to increase through the 16 salary levels used in government. In 2006/07, 31 per cent of public servants were in salary levels 1-4 and 10 per cent were in levels 9-16; by 2017 the respective figures were 19 per cent and 21 per cent.

Over time, occupation-specific salary dispensations (OSD) have been introduced for specialised personnel, including medical doctors, nurses, teachers, police officers, lawyers, magistrates and engineers. In some cases, these led to substantial increases in remuneration in the year of their

introduction. Subsequent increases, however, have been in line with cost-of-living adjustments, and promotion and progression policies affecting the broader public service.

The combined effect of these trends is reflected in Figure B.5, which shows that, between 2006/07 and 2017/18, the number of public servants earning less than R10 000 per month (in 2017 rands) fell by half, while those earning more than R30 000 per month increased five-fold.

Figure B.5 Distribution of public servants by real monthly remuneration



* Exclude South African National Defence Force
Source: National Treasury (PERSAL data)

By 2017/18, nearly 66 per cent of public servants were receiving occupation-specific dispensations (Table B.3). The highest-paid OSD group is composed of doctors, whose average remuneration was nearly R720 000 a year, a figure that understates their pay since many doctors work only part-time for the public service. Among the larger OSD groups, educators are the best paid. Average remuneration of ordinary civil servants (who are not in an OSD group) is much lower than for OSD groups, especially when senior officials are excluded.

Table B.3 Selected OSD groups and remuneration (excluding SANDF)

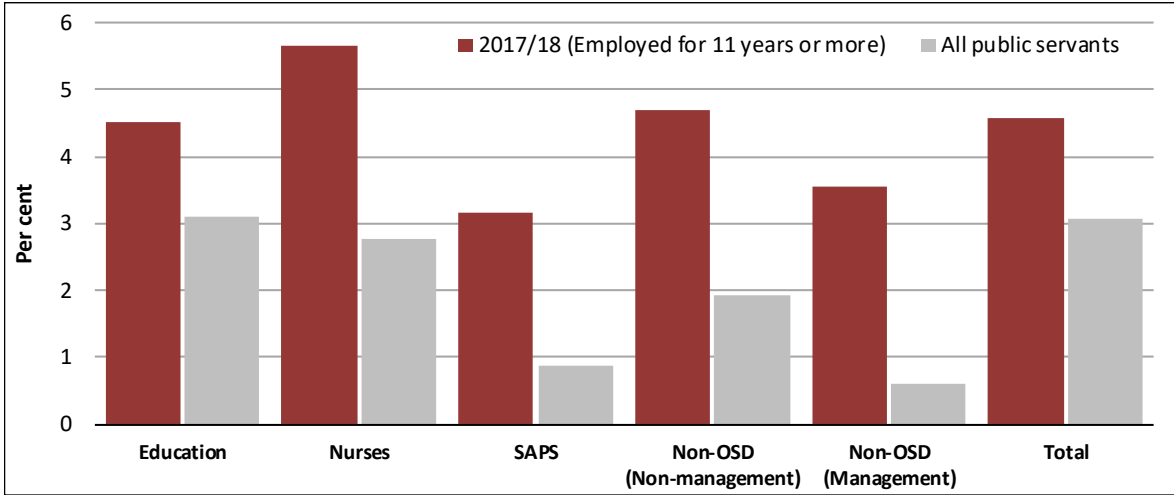
| | 2017/18 | | |
|--------------------------------|-----------------------------|---------------------|-------------------------|
| | Average remuneration (Rand) | Number of personnel | Percentage of personnel |
| Medical (doctors and dentists) | 719 495 | 42 679 | 3.4% |
| Other OSD | 484 044 | 55 207 | 4.4% |
| Education | 407 208 | 401 012 | 32.3% |
| Corrections | 368 357 | 35 132 | 2.8% |
| Nursing | 357 669 | 141 185 | 11.4% |
| Police | 339 729 | 148 277 | 11.9% |
| Non-OSD | 290 187 | 419 223 | 33.7% |
| Non-OSD (non management) | 250 274 | 394 120 | 31.7% |
| Non-OSD (management) | 772 434 | 25 103 | 2.0% |
| Total | 367 092 | 1 242 715 | |

Source: National Treasury (PERSAL data)

Furthermore, government's promotion and wage progression policies tend to raise wages for longer-tenured staff more quickly than shown by aggregate trends. There is a wide gap between the average remuneration of public servants who have been employed since or before 2006/07, who earn an average of R424 000 a year, and those who have been in government's employ for less time, who earn an average of R304 000. These differences are masked by aggregate trends.

Overall, remuneration of public servants employed by government for 11 years or more has increased by 4.6 per cent a year in real terms, as compared to 3.1 per cent for all public servants (Figure B.6). The latter figure is affected by the changing composition of personnel as older staff leave the public service and are replaced by younger officials.

Figure B.6 Average real remuneration increases by OSD group for long-tenured and all personnel



Source: National Treasury (PERSAL data)