

B

Compensation data

Introduction

In 2018/19, spending on compensation of state employees accounted for 35.4 per cent of consolidated national expenditure. Compensation is one of the largest components of public spending and, since 2006/07, has grown faster than any category except payments for financial assets. This trend has become a source of spending pressure across government, squeezing out spending on other inputs and capital equipment (Table B.1).

Rapid growth in compensation spending has been driven by real increases in wages and benefits rather than higher employment levels. In addition, the rate of growth of compensation has diverged between the public and private sectors over the past eight years, as average remuneration growth has moderated in the private sector.

Table B.1 Compensation spending as a percentage of total spending

	2006/07	2018/19	Change ¹
National government	36%	37%	1%
Provincial government	56%	61%	4%
Basic education	79%	79%	0%
Health	54%	62%	8%
Police	70%	80%	10%
Land and rural development	46%	50%	4%
Roads and transport	17%	21%	4%

1. May not balance due to rounding

Source: National Treasury

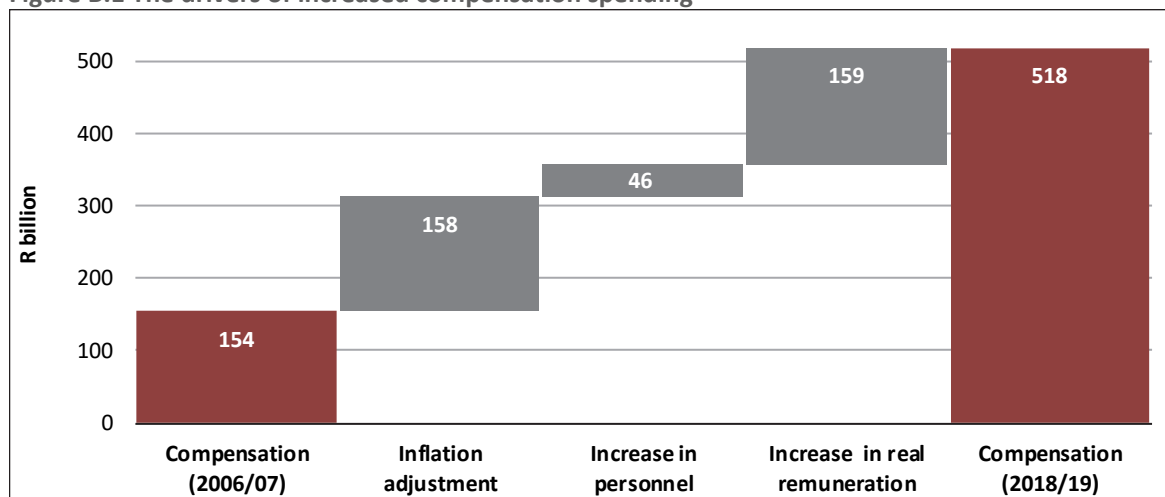
Drivers of compensation spending

Compensation spending¹ is driven by two factors: changes in the number of public servants and changes in their remuneration. Within the budget for compensation, there is a trade-off between the two: the faster average remuneration rises, the slower the rate of increase in the number of public servants. This dynamic is always present, but it becomes critical in an era of slow revenue growth.

¹ Unless otherwise noted, 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 2018/19 – a period that includes the introduction of occupation-specific dispensations for wages – total compensation spending on the main budget more than tripled, from R154 billion to R518 billion. Above-inflation remuneration increases account for the largest proportion of this spending, as shown in Figure B.1.

Figure B.1 The drivers of increased compensation spending



Source: National Treasury (PERSAL data)

Personnel numbers

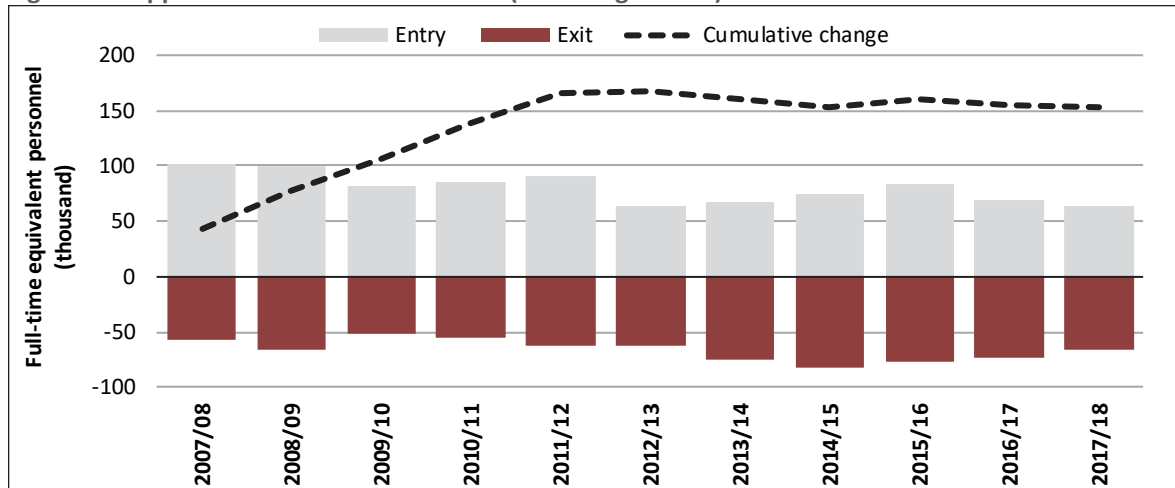
Between 2006/07 and 2018/19 (the latest year for which full payroll data is available), personnel numbers, measured using full-time equivalents,² rose by 170 000 from 1.2 million to 1.3 million. This translates to average annual growth of 1.2 per cent.

In 2015, about 20 000 personnel employed at technical vocational education and training colleges were transferred from provincial departments to the Department of Higher Education and Training. Excluding the effect of this change, provincial personnel grew by 16 per cent and national personnel grew by 12 per cent between 2006/07 and 2018/19. The number of personnel has increased across all major sectors of government. A quarter of this increase has occurred in the health sector, followed by justice and education.

Personnel numbers peaked in 2012/13 and have since declined by about 1.4 per cent. On average, between 2006/07 and 2011/12, every public-service employee who left was replaced with 1.6 employees. In comparison, since 2012/13, more people have left the public service than have been hired.

² All statistics are reported as 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 is unavailable, the SANDF has been excluded from the analysis.

Figure B.2 Appointments and terminations (excluding SANDF)



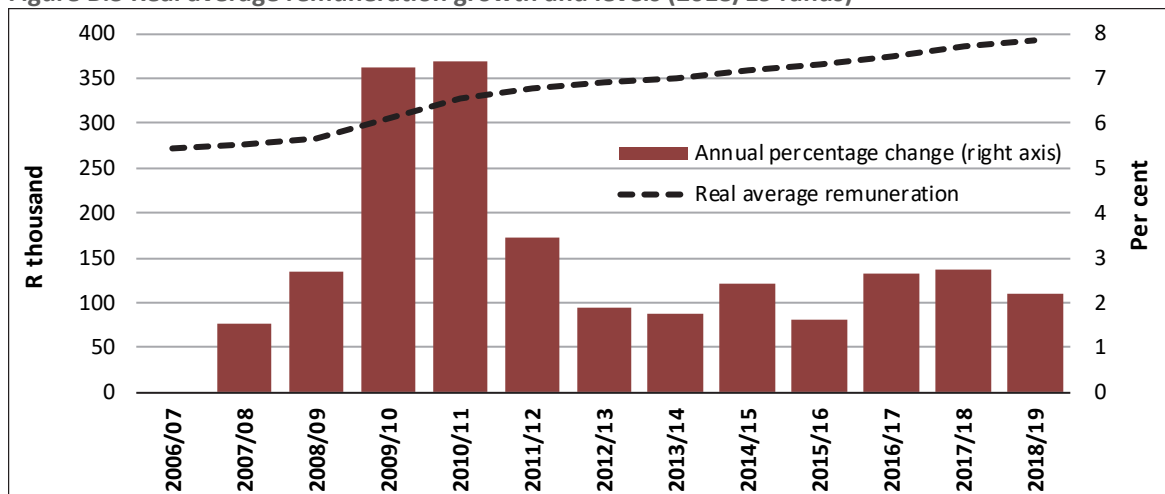
Source: National Treasury (PERSAL data)

Average remuneration and equity in the public sector

After adjusting for inflation, average remuneration in the public service rose 66 per cent between 2006/07 and 2018/19 (Figure B.3). Much of this increase was concentrated in 2009/10 and 2010/11, where the fastest rise in wages was recorded in high-skill professions, including medical doctors, teachers and lawyers, where occupation-specific dispensations were introduced.

Real growth in average remuneration has created significant spending pressures in all government departments, especially where compensation is a large portion of total spending, such as in the security sector (police) and education (teachers). Because this spending cannot be adjusted in the short term, it tends to crowd out other spending in departments if budgets have to be reduced.

Figure B.3 Real average remuneration growth and levels (2018/19 rands)



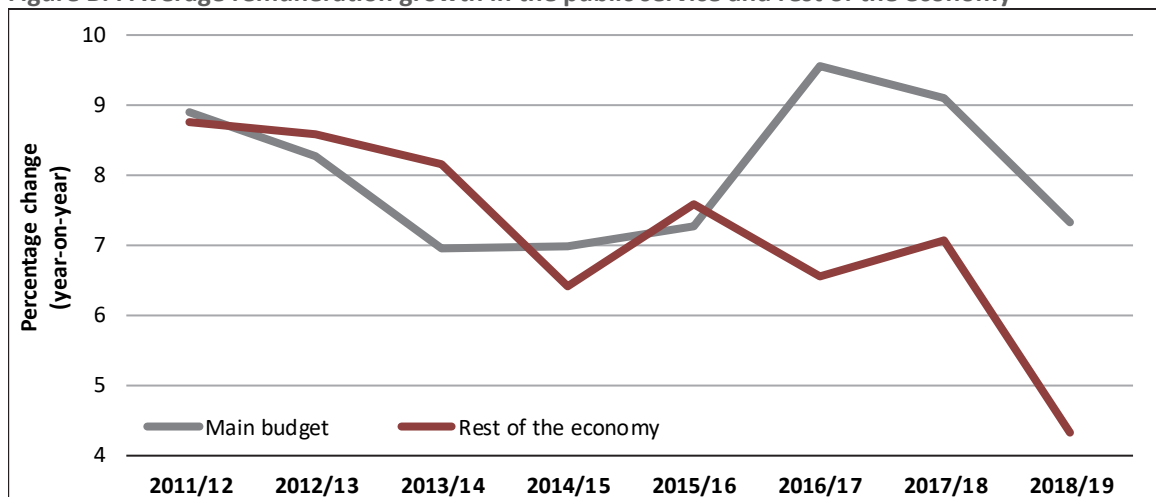
Source: National Treasury (PERSAL data)

Average remuneration in the public sector is higher than average remuneration in the rest of the economy. Data from Statistics South Africa's *Quarterly Employment Survey* (QES) show that average remuneration across 110 non-agricultural sectors and sub-sectors in 2018/19 was just under R273 000, compared with an estimated average remuneration of R352 000 for employees of national and provincial government. According to the National Treasury's calculations, the actual level of average remuneration

for these employees is even higher, around R393 000.³ We estimate that public servants in national and provincial government earn about 20 per cent of all wages earned in the non-agricultural formal sector.

Average public-sector remuneration is higher in part because a larger proportion of public servants have tertiary qualifications. In addition, public servants have also tended to receive higher increases in average remuneration. Since 2010/11, the QES shows that average remuneration in the public sector has risen by an annual average of 8 per cent, a figure that may be understated because of the effect of temporary workers such as those employed by the Expanded Public Works Programme, compared with an annual average increase of 7.2 per cent in the rest of the economy. The gap between public- and private-sector remuneration growth has widened over the past few years.

Figure B.4 Average remuneration growth in the public service and rest of the economy



Source: Statistics South Africa

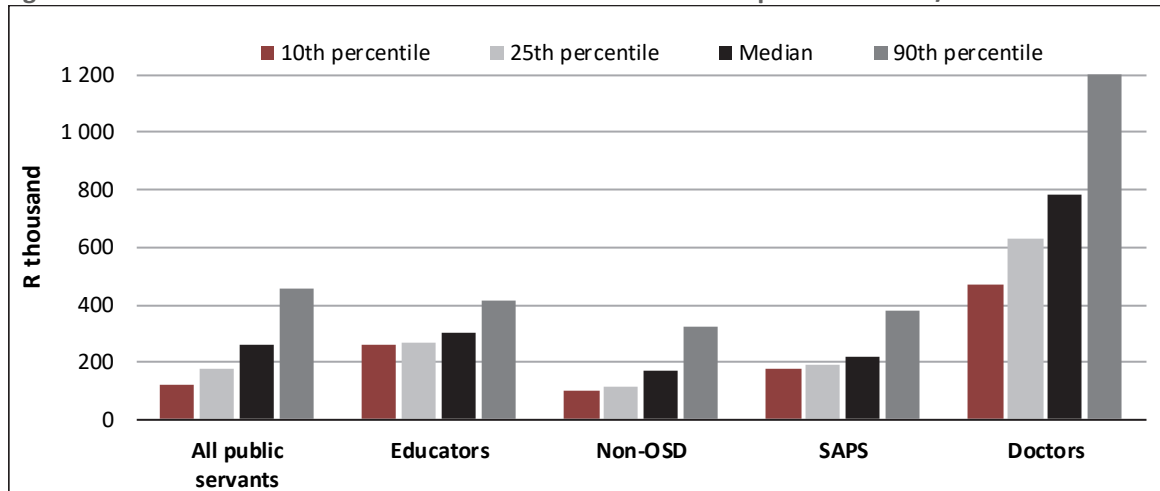
Public-service remuneration is distributed more equitably than in the economy as a whole: the public-service Gini coefficient is 0.38, compared to a whole-economy Gini coefficient of over 0.6.⁴ The distribution of earnings is particularly compressed among teachers, who make up almost a third of the public service.

Within more specialised groups, including middle and senior managers, remuneration is higher and the distribution is larger. In total, however, these groups make up about 6 per cent of the public service. Doctors, for example, account for only 2 per cent of the public service, but earn more than most other public servants within a wide range. The median doctor earns R781 000, while doctors at the 10th and 90th percentiles earn R472 000 and R1.2 million, respectively.

³ The QES records a larger number of public-service employees than appear in this analysis. There are two reasons for this. The first is that this analysis is premised on full-time equivalent employees, which is generally a smaller figure than the absolute number of employees. The second is that this analysis excludes low-wage temporary workers such as those employed through the Expanded Public Works Programme and the Community Works Programme.

⁴ The Gini coefficient measures inequality. A higher coefficient implies a more unequal distribution of income.

Figure B.5 Distribution of annual remuneration for different occupations in 2018/19



Source: National Treasury (PERSAL data)

Remuneration in the public service has been compressed because incomes in the lower salary bands have risen more quickly than incomes in higher salary bands (Table B.2) and there has been a consistent upward drift in the distribution of personnel across the grades (Figure B.6).

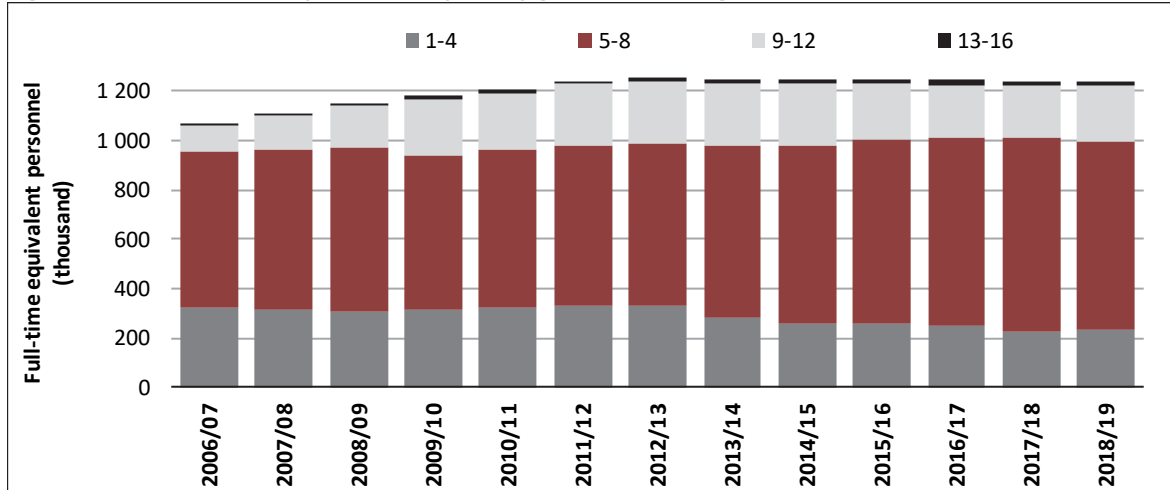
Table B.2 Average salary by grade across government¹

Grade	2006/07 (nominal)	2006/07 (in 2018 rand)	2018/19	Compound annual growth rate (nominal)	Compound annual growth rate (real)
1	R44 253	R89 705	R130 379	9.4%	3.2%
2	R58 812	R119 217	R159 827	8.7%	2.5%
3	R69 747	R141 385	R194 845	8.9%	2.7%
4	R83 124	R168 501	R237 818	9.2%	2.9%
5	R101 200	R205 143	R258 312	8.1%	1.9%
6	R120 002	R243 256	R317 240	8.4%	2.2%
7	R151 147	R306 389	R375 960	7.9%	1.7%
8	R181 134	R367 177	R448 039	7.8%	1.7%
9	R221 102	R448 197	R539 935	7.7%	1.6%
10	R280 757	R569 124	R687 120	7.7%	1.6%
11	R346 959	R703 320	R887 808	8.1%	2.0%
12	R440 097	R892 121	R964 954	6.8%	0.7%
13	R548 380	R1 111 620	R1 212 238	6.8%	0.7%
14	R642 820	R1 303 061	R1 442 967	7.0%	0.9%
15	R792 154	R1 605 776	R1 765 435	6.9%	0.8%
16	R992 563	R2 012 025	R2 169 585	6.7%	0.6%

1. Excludes SANDF

Source: National Treasury (PERSAL data)

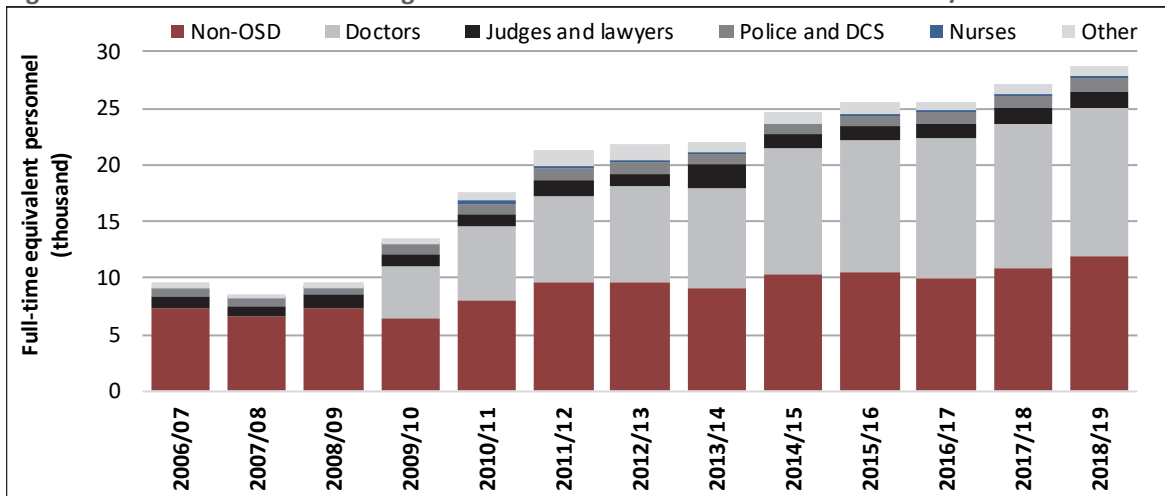
Figure B.6 Distribution of personnel by salary grade (excluding SANDF)



Source: National Treasury (PERSAL data)

Figure B.7 focuses on the effect of this movement of more personnel into the highest-earning categories. Between 2006/07 and 2018/19, the number of public servants earning R1 million a year increased from 9 600 to 29 000, primarily because of a growing number of high-skilled professionals. Average income for this group increased by about 8 per cent over the period, rising from R1.2 million to R1.3 million. Nonetheless, the increase in the number of employees in this category has driven the rise in total spending on this group from R5.8 billion to R38 billion, or from 4 per cent to 7.4 per cent of total compensation spending, between 2006/07 and 2018/19.

Figure B.7 Public servants receiving annual salaries in excess of R1 million in 2018/19 rand*



*Excludes South African National Defence Force

Source: National Treasury (PERSAL data)