

B

Compensation data

Introduction

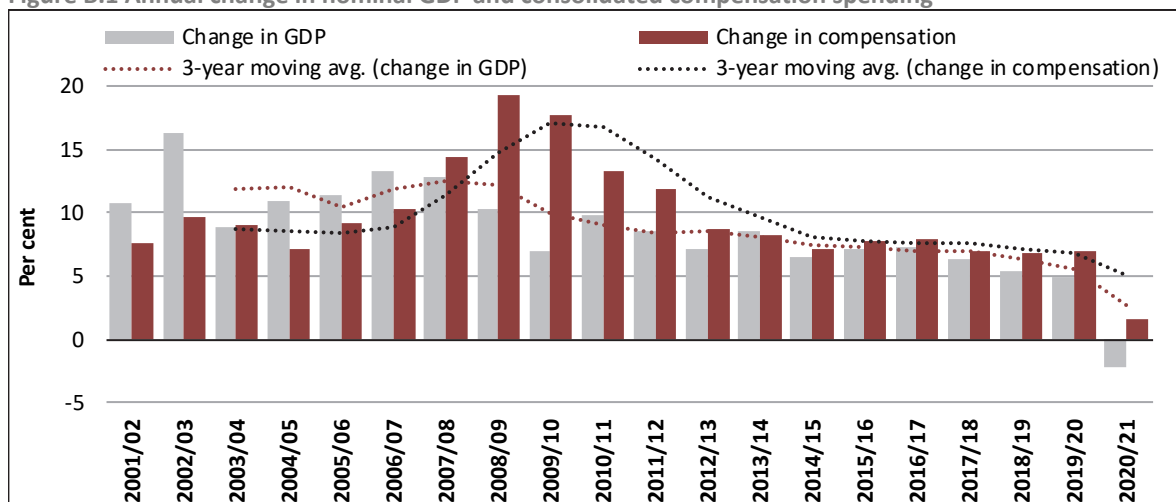
Public-service provision is inherently labour-intensive, with the remuneration of public servants accounting for about 37 per cent of non-interest spending over the medium-term expenditure framework period. This annexure analyses trends in compensation spending in government.

The 2020/21 financial year marked a significant departure from past trends. Nominal wage growth was exceptionally restrained and the COVID-19 pandemic affected the workforce in various ways. Between 2006/07 and 2020/21, compensation spending on the consolidated budget rose by an annual average of 9.9 per cent, from R170 billion to R635.4 billion, while compensation spending by national and provincial departments rose by 9.8 per cent a year, from R153 billion to R570.3 billion. Inflation accounts for 46 per cent of the increase. Of the rest, 75 per cent was used to raise salaries in the public sector and 25 per cent was used to increase employment.

Slowing the rate of increase in remuneration

In the long run, compensation spending growth cannot exceed GDP growth. Since 2007/08, however, consolidated compensation spending (excluding public entities) has grown more quickly than nominal GDP in every year except 2013/14. As a result, public-service compensation absorbs an increasing share of GDP.

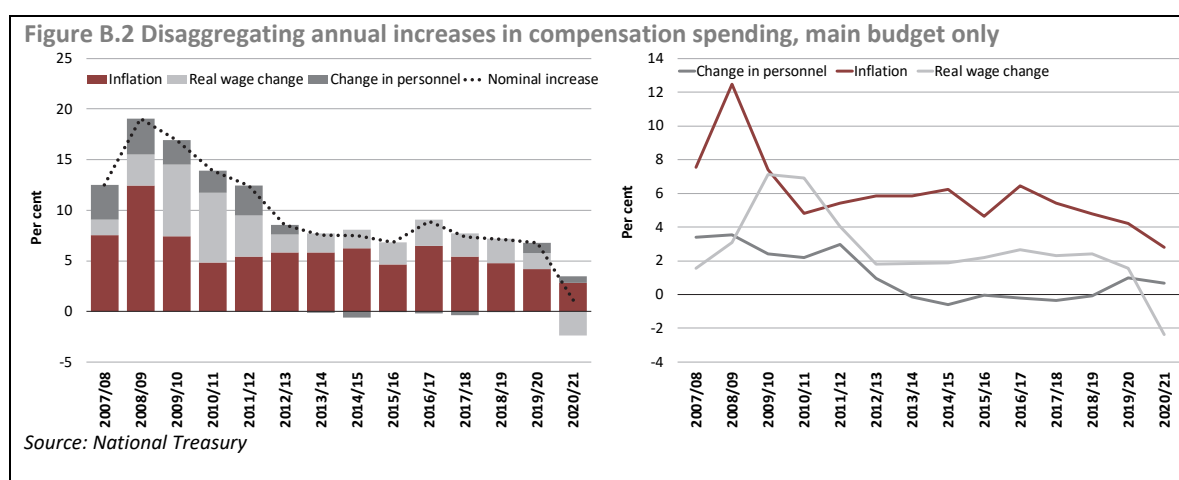
Figure B.1 Annual change in nominal GDP and consolidated compensation spending



Source: National Treasury

Changes in compensation are driven by changes in the number of employees and their remuneration. Average remuneration rose in nominal terms by just over 8 per cent a year between 2009/10 and 2019/20 across all categories of public servants. In 2020/21, average remuneration rose by 0.4 per cent. The decline in real (inflation-adjusted) wages in 2020/21 was the first such occurrence since at least 2000/01. Nonetheless, the economic impact of COVID-19 and expanded public-health employment meant that compensation spending growth continued to outpace GDP growth.

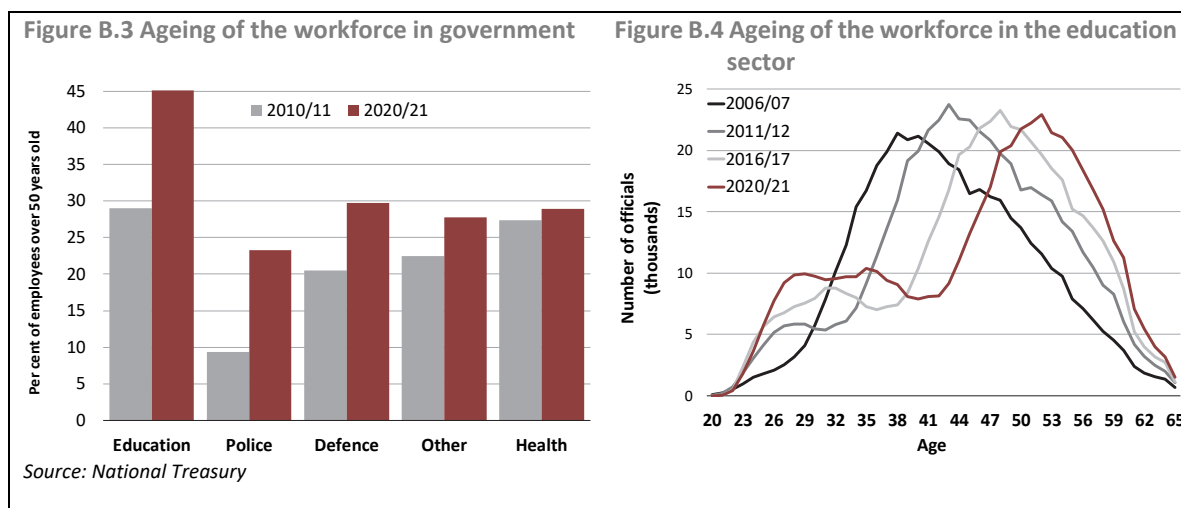
As reflected in Figure B.2, the drivers of rising compensation spending have changed significantly. Between 2007/08 and 2011/12, compensation spending grew particularly rapidly because of the combination of a high rate of inflation, strong growth in personnel numbers and rapid increases in real average remuneration. Between 2011/12 and 2019/20, by contrast, the growth in personnel numbers fell to nearly zero and inflation moderated, while real average remuneration continued to increase by about 2 per cent a year. The most significant break in these trends is evident in 2020/21, when real average remuneration fell by about 2.4 per cent as a result of the decision not to implement a cost-of-living adjustment for the third year of the 2018 wage agreement.



Government is committed to fair and sustainable compensation of employees. As discussed in previous years, however, compensation growth has been on an unsustainable trajectory. Although the wage growth moderation in 2020/21 has helped to make compensation spending growth more sustainable, the extent to which this will continue depends on the outcome of ongoing wage negotiations. It will also depend on whether the Constitutional Court upholds the decision of the Labour Appeal Court, which held that government was within its rights not to implement the cost-of-living adjustment as stipulated in the 2018 wage agreement, because the National Treasury had not affirmed its affordability.

The trend of agreements requiring the payment of unbudgeted increases that exceed economic growth suggests that there are serious shortcomings in the system. This approach to wage setting does not adequately take overall economic and fiscal conditions into account. It also forecloses on government's ability to hire new employees and maintain service levels for public goods. Significant reforms will be needed in due course.

One consequence of the stagnation in public-sector employment during the 2010s is that the workforce has aged. In 2010/11, about one official in four was over the age of 50; by 2020/21, the figure was one in three, with the ageing of the workforce being particularly pronounced in the education sector (Figures B.3 and B.4).



This trend has contributed to higher average remuneration, because long-serving officials accumulate annual increases and promotions. Conversely, as the rate of retirement increases in the near future, the replacement of departing officials with younger ones will tend to moderate the rate of growth of average remuneration: in 2006/07, about 31 000 officials were aged between 60 and 65, with the corresponding figure for 2020/21 being 63 000. South Africa's tertiary institutions will need to ensure an adequate flow of newly qualified graduates to replace public servants as they retire.

Changes in the composition of the workforce as a result of COVID-19

The COVID-19 pandemic has affected the size and composition of the public service, partly through deliberate choices to increase capacity in the health function. Two other factors have also affected workforce dynamics: an increase in mortality and a decline in the number of resignations.

The health sector expanded by nearly 18 500 employees in 2020/21, even as employment in the rest of government shrank by nearly 10 000 (Table B.1).

Table B.1 Employment in major government functions (full-time equivalents)

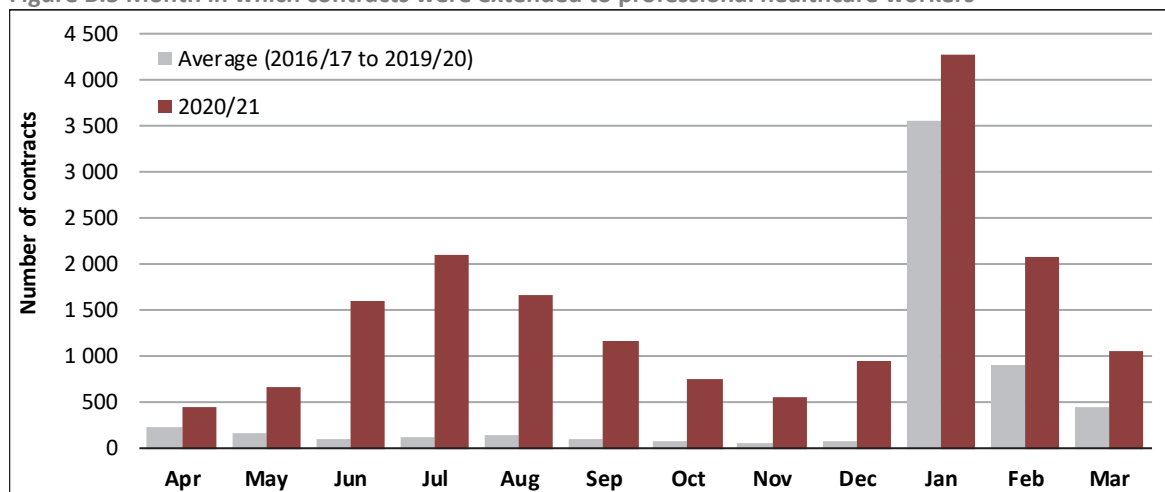
| | 2006/07 | 2010/11 | 2015/16 | 2019/20 | 2020/21 | Change in 2020/21 |
|--------------|------------------|------------------|------------------|------------------|------------------|---------------------|
| Education | 446 215 | 494 244 | 495 104 | 500 406 | 499 440 | -966 (-0.2%) |
| Health | 245 584 | 289 583 | 312 471 | 319 213 | 337 671 | 18 458 (5.8%) |
| Police | 155 823 | 186 810 | 189 466 | 190 004 | 184 162 | -5 842 (-3.1%) |
| Defence | 79 925 | 79 040 | 77 832 | 74 212 | 73 713 | -500 (-0.7%) |
| Other | 219 538 | 235 550 | 250 645 | 246 287 | 243 966 | -2 321 (-0.9%) |
| Total | 1 147 084 | 1 285 228 | 1 325 516 | 1 330 122 | 1 338 951 | 8 830 (0.7%) |

Source: National Treasury

The increase in health sector employment in 2020/21 included the addition of over 10 000 nurses, doctors and other professional healthcare workers.

The extent of the health sector response to COVID-19 can be seen in Figure B.5. In 2021, about 17 300 health professionals were recruited on time-bound contracts relative to an average of just under 6 000 for the previous four financial years. Unlike in previous years, appointments were made throughout the year, rather than just in January, February and March, when new graduates are recruited.

Figure B.5 Month in which contracts were extended to professional healthcare workers



Source: National Treasury

Two other factors associated with the COVID-19 pandemic influenced the size and composition of the public service. First, the number of resignations was 32 per cent lower than the average for the previous five years, likely due to very weak conditions in the labour market (Table B.2). Second, nearly 11 000 government officials died in 2020/21 – nearly double the average for the previous five years.

Table B.2 Manner of exiting employment in the public service, 2015/16 to 2020/21

| | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2020/21 as a % of the average for previous 5 years |
|---|----------------|----------------|----------------|----------------|----------------|----------------|--|
| Expiry of contract | 44 182 | 47 033 | 45 793 | 44 994 | 49 967 | 53 018 | 114% |
| Expiry of contract (min wage workers on short-term contracts) | 9 172 | 8 125 | 7 003 | 5 439 | 13 534 | 16 097 | 186% |
| Retirement | 17 922 | 17 884 | 18 434 | 19 432 | 20 538 | 24 069 | 128% |
| Resignation | 36 662 | 27 319 | 25 822 | 24 135 | 23 539 | 18 587 | 68% |
| Death | 6 175 | 5 685 | 5 755 | 5 684 | 5 261 | 10 974 | 192% |
| Other | 6 852 | 3 570 | 4 023 | 3 992 | 3 183 | 2 730 | 63% |
| Total | 120 965 | 109 616 | 106 830 | 103 676 | 116 022 | 125 475 | 113% |

Source: National Treasury

Conclusion

Although wage growth moderation in recent years has narrowed the gap between GDP and compensation growth, much more work is needed to ensure a sustainable, long-term approach to public-service compensation. As reflected elsewhere in the *Medium Term Budget Policy Statement*, compensation spending growth remains a significant risk to the fiscal framework.