B

2023 MTBPS

COMPENSATION AND EMPLOYMENT DATA
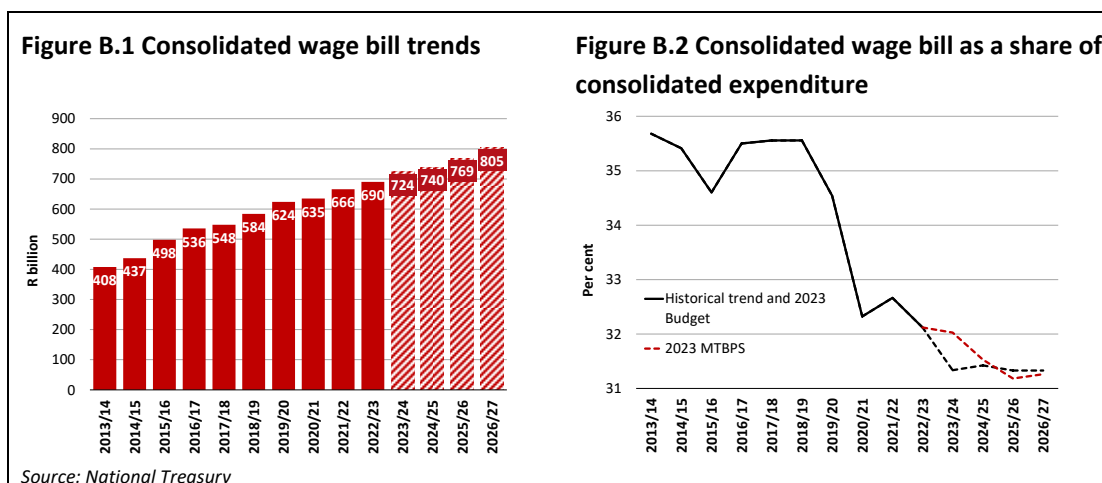
national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

COMPENSATION AND EMPLOYMENT DATA

INTRODUCTION

In recent years government has taken steps to slow growth in consolidated compensation costs. These costs include salaries, benefits and allowances for government employees such as teachers, healthcare workers, police officers and military personnel. This annexure focuses on the public-sector wage bill, which includes national, provincial and local government, as well as public entities and state-owned companies. It also analyses trends in public-service employment and wages, a narrower category covering only national and provincial departments.

Figures B.1 and B.2 reflect trends in compensation of employees since 2013/14. Over the past decade, the wage bill has declined as a share of consolidated spending from 35.7 per cent in 2013/14 to 32.1 per cent in 2022/23. In 2023/24, its share increases to 32 per cent in comparison to 31.3 per cent at the time of the 2023 Budget. This is mainly due to additional funding allocated for the 2023/24 wage increase for select labour-intensive departments, including the carry-through costs over the medium-term expenditure framework period. In 2026/27, it is projected to decrease to 31.6 per cent of consolidated spending.

Figure B.1 Consolidated wage bill trends

Figure B.2 Consolidated wage bill as a share of consolidated expenditure
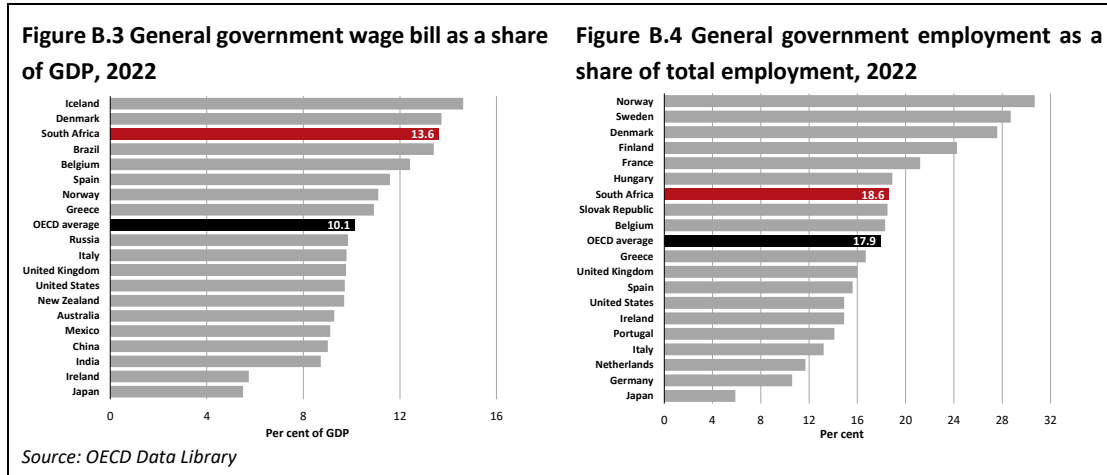
Source: National Treasury

Managing growth in the wage bill is critical to fiscal sustainability. The percentage wage increases negotiated and agreed on in the past often exceeded the prevailing inflation rates. Above-inflation increases in one year raise average remuneration per person and compound the effect of any future increases. Above-inflation growth has hindered government's ability to allocate funds to other critical areas, such as social services and infrastructure development. Escalating public-sector wages contributed to higher budget deficits and debt over the past decade. As discussed in chapters 2 and 3, the weaker fiscal position now shows signs of harming economic growth.

INTERNATIONAL BENCHMARKING

South Africa's general government wage bill – made up of the public sector and state-owned companies – is one of the highest among emerging markets. Figure B.3 shows that, as a share of GDP, South Africa's general government wage bill is about 3.5 percentage points greater than the Organisation for Economic Co-operation and Development (OECD) average. Yet public-sector employment is lower as a share of total employment than in other countries with high wage bills,

such as Norway and Denmark (Figure B.4). This suggests that high average compensation levels are mainly responsible for South Africa's high public-sector wage bill, rather than headcount growth.

Figure B.3 General government wage bill as a share of GDP, 2022

Figure B.4 General government employment as a share of total employment, 2022

Source: OECD Data Library

PUBLIC-SERVICE REMUNERATION COSTS AND EMPLOYMENT TRENDS

The average remuneration cost per public-service employee, or unit cost, refers to the total cost that the employer incurs on average for compensating a single employee. It includes employee salaries and various benefits, such as pensions, medical and housing subsidies, bonuses and other forms of compensation. This average has grown significantly faster than headcounts since 2013/14, largely because of above-inflation salary increases for national and provincial employees (Figure B.5). These increases have often been a point of contention during wage negotiations between government and labour unions representing public-service employees as they occurred during a period of weakening economic growth and fiscal constraints. From 2020/21 onwards, this salary trend shifted as government reduced growth in compensation in an effort to stabilise public finances.

Figure B.7 shows how, over time, a higher proportion of public-service employees have moved into higher-earning categories. This is directly as a result of the higher cost-of-living adjustment agreed on over the past years and pay progression policies. The number of employees with annual earnings in excess of R1 million per year has also increased from just above 10 000 in 2013/14 to over 55 000 in 2023/24. Almost half (48 per cent) of employees will earn between the annual ranges of R350 001 and R600 000 in 2023/24.

Figure B.8 shows that female employees account for 62.5 per cent of the public-service workforce in 2023/24, up from 59.7 per cent in 2013/14. Male employees account for a higher share of employment at the most senior levels of government, although representation is improving: as a share of management categories, female employees rose from 37.6 per cent in 2013/14 to 45.9 per cent in 2023/24. Achieving gender equity in senior management remains an important government objective.
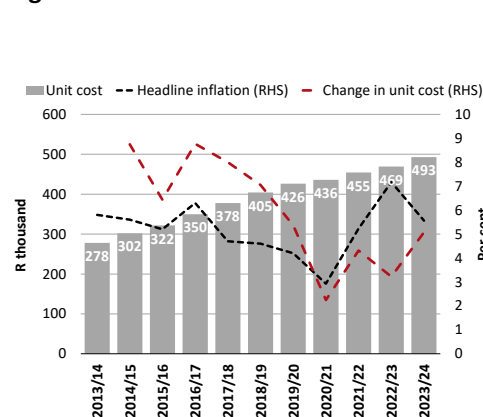
Figure B.5 Public-service unit cost trends

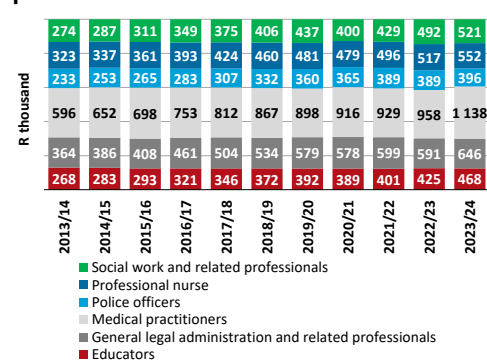**Figure B.6 Public-service unit cost trends by profession**

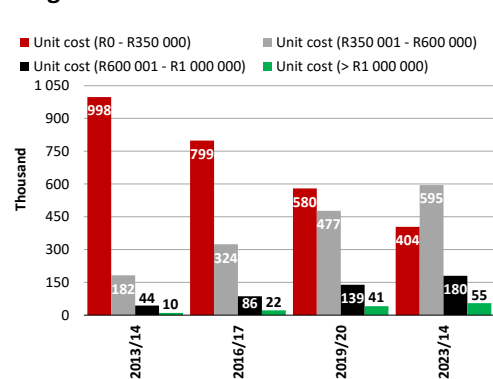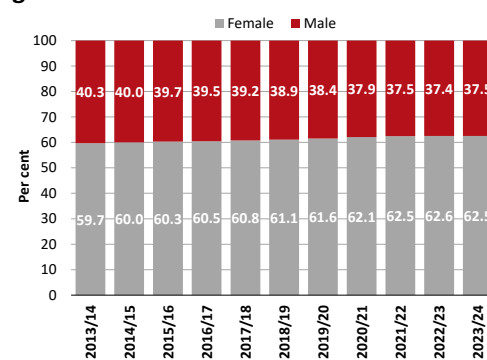**Figure B.7 Public-service headcount by earning range**

Figure B.8 Public-service headcount share by gender

Source: National Treasury
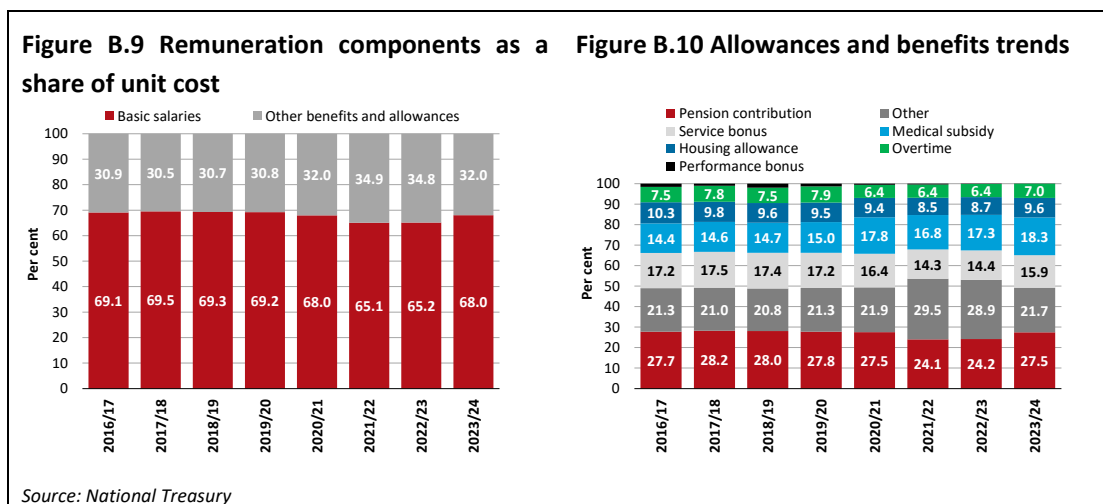
DRIVERS OF AVERAGE REMUNERATION COSTS PER PERSON

Remuneration policies, pay scales and benefits for public-service employees are determined through government determinations and collective bargaining agreements. These policies are periodically reviewed and updated to ensure fairness and competitiveness and to align with economic conditions and government priorities. Government has undertaken various remuneration policy reforms in line with these goals. Some of these reforms contributed to escalating remuneration cost per person for public-service employees, as outlined below. Many of the benefits listed below are linked to resolutions agreed on in the Public Service Co-ordinating Bargaining Council, which require them to grow in line with the relevant inflation rate every year. This in turn increases the total wage bill every year.

The factors driving average remuneration costs per person include:

• Occupation-specific dispensation: Between 2007/08 and 2009/10, occupation-specific dispensations were introduced as a major reform to recognise and retain employees with specialised skills through higher remuneration. This resulted in significant increases to the unit cost of frontline employees such as medical and legal practitioners, nurses and social workers (Figure B.6).

- Pay progression: This policy refers to the advancement of an employee's salary over time based on factors like performance, experience and qualifications. On average, most public-service employees receive pay progression of 1.5 per cent per year, although the Department of Defence provides pay progression of 2 per cent annually.

- Pension contributions: These are currently the largest benefit that public-service employees receive. Government contributes 16 per cent of the pensionable salaries for uniformed members of the police, defence, intelligence services and correctional services, and 13 per cent for all other employees.

- Benefits and allowances: These benefits differ across sectors depending on the nature of the work, the requirements of each occupation and the category of public service. For instance, police officers, correctional services personnel and medical personnel may be eligible for overtime pay or special allowances for working extended hours or performing hazardous duties. Other benefits and other allowances include medical subsidies, housing allowances, leave entitlements and professional development opportunities.

Figures B.9 and B.10 show the components that make up public-service employees' remuneration and the breakdown of allowances and benefits. Since 2016/17, allowances and benefits accounted for between 30 and 33 per cent of the total earnings of public-service employees.

Figure B.9 Remuneration components as a share of unit cost

Figure B.10 Allowances and benefits trends

Source: National Treasury

PUBLIC-SERVICE WAGE BILL OUTLOOK

Table B.1 shows the projections for the public-service wage bill over the 2024 medium-term expenditure framework period. About R111.4 billion was added over the period to assist the labour-intensive departments – education, health, police, defence and correctional services – to implement the 2023 public-service wage agreement. Other departments are expected to absorb the wage increases within their baselines, including, where necessary, by managing headcounts. Government will assist in managing headcounts, including implementing controls on payroll systems to ensure executive authorities operate within their budgets when creating and filling vacant posts.

Table B.1 Public-service wage bill projections over the 2024 MTEF period by sphere and sector

R million	2023/24 Revised baseline	2024/25	2025/26	2026/27	Average annual growth 2023/24 – 2024/25	Average annual growth 2023/24 – 2026/27
		Medium-term estimates				
By sphere						
National	190 664	195 264	204 696	214 299	2.4%	4.0%
Provincial	455 778	468 004	483 672	506 050	2.7%	3.5%
By sector						
Education	239 888	247 985	257 728	269 567	3.4%	4.0%
Health	158 231	161 766	165 864	173 478	2.2%	3.1%
Police	83 795	88 608	93 716	98 006	5.7%	5.4%
Defence	31 829	32 525	33 960	35 514	2.2%	3.7%
Correctional services	18 290	18 694	19 520	20 413	2.2%	3.7%
Other	114 409	113 690	117 580	123 371	-0.6%	2.5%
Total	**646 442**	**663 268**	**688 368**	**720 349**	**2.6%**	**3.7%**

Source: National Treasury

CONCLUSION

Government remains committed to remunerating all its employees fairly, while balancing wage increases with the sustainability of public finances and broader policy priorities. In the current economic climate, with limited fiscal resources, it is especially important to manage the public-sector wage bill through careful planning and budgeting that considers all components of remuneration policy.

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