

Personnel

Introduction

Appropriate and professional personnel management is the cornerstone of high quality and effective government services. Personnel expenditure comprises a significant portion of overall government spending. If it is not managed properly, it can have serious budgetary implications.

To ensure effective service delivery and sound management of the financial aspects of personnel, governments in each sphere must address a number of challenges. One is the balance of spending on personnel and non-personnel needs. Another is making sure that service delivery is not compromised by shortages of skilled and productive individuals in the public service – a challenge that arises in a number of key areas of government's work. This chapter addresses some of these challenges as they pertain to provincial and local government.

In 2004, 1,6 million people were employed in the public sector. National government employs 20,8 per cent of public servants, provinces employ 46,9 per cent, local government employs 13,3 per cent, and non-business public entities and business enterprises employ the remaining 19 per cent.

In national government, the largest employers are the South African Police Service (with approximately 148 000 employees), defence (with about 75 000 employees) and correctional services (with about 33 000 employees). Most public service employees in the provinces are in the education and health sectors. Provincial education departments employ 57,1 per cent of the provincial public service, while departments of health employ 29,5 per cent. In local government, metros account for approximately 50 per cent of total local government employees.

This chapter reviews:

Spending on personnel must be balanced against other components to ensure effective delivery

In 2004, 1,6 million people were employed in the public sector

The majority of employees in the provinces are in the education and health sectors

- the legal framework and institutional arrangements governing personnel
- policy developments
- sectoral trends
- the 2004 Wage Agreement.

Legal framework and institutional arrangements

The public service is regulated by specific legislation. Employees in national and provincial governments are employed under the following Acts:

- Public Service Act (1994)
- Employment of Educators Act (1998)
- South African Police Services Act (1995)
- National Prosecuting Authority Act (1998)
- South African Defence Force Acts (1995)

Conditions of service for most national and provincial public servants are negotiated in the Public Service Co-ordinating Bargaining Council, under the leadership of the Department for Public Service and Administration. Public servants employed in terms of the National Prosecuting Authority Act (1998) and the South African National Defence Force Act (1995) are not part of this arrangement. They negotiate through their own departmental bargaining chambers.

Local government employees are employed by individual municipalities, with different personnel dispensations governing their employment contracts and conditions of service. Their conditions of service are negotiated through collective bargaining arrangements with the unions, where the South African Local Government Association (SALGA) represents local government.

There are three distinct phases of personnel policy

The current personnel environment characterises the third phase of government personnel policy, which has focused on government's improved ability to deliver high quality services. The first phase, from 1994 to 1997, unified the highly fragmented dispensation that existed at the time and ended racial discrimination in the public service. During the second phase, from 1997 to 2000, policy focused on consolidating the transformation process, containing excessive cost increases, rationalising the public service, and aligning personnel costs with public priorities and expenditure levels. It was during the second phase that personnel costs fell in real terms by about 0,7 per cent per year, even though unit labour costs rose by about 1 per cent per year.

The third phase started in 2001, with more resources being allocated to critical service areas

In 2001, government shifted to a more expansionary fiscal stance. This was in response to more resources being available because of earlier fiscal decisions and a renewed emphasis on growth and service delivery. More resources were allocated to critical service areas, resulting in moderate real increases in personnel spending. This phase

continues through the current MTEF. Public service employment is projected to continue rising moderately by about 1,0 per cent to 1,5 per cent a year and personnel expenditure by about 2,0 per cent to 3 per cent a year. Within those aggregates, sectors will vary in their employment levels and personnel spending, depending on priorities and policy imperatives.

Efforts to raise levels of service delivery across all spheres of government are in line with the objective of having a unified institutional and legislative framework, as suggested by the move towards the widely referred to 'one public service'. The main objectives of one public service are to deal with governance issues and to harmonise conditions of service for employees in all three spheres of government, based on an overarching legislative framework. This single framework is also being developed to include public entities, to make sure that service delivery is improved and standardised as widely as possible. Within this single framework, the public service needs considerable flexibility to create and adjust systems to reflect the particular needs of individual government departments and public entities.

Government is working towards having 'one public service'

The framework relies on an appropriate remuneration structure for the whole of the public service. This is to make sure that there is fair treatment across entities and departments as well as market-related pay systems that enable recruitment, retention and skills development. These developments mark the maturing of the third phase of development in personnel policy.

The third phase of government's personnel policy focuses on delivering high quality services

Provincial personnel management

Summary of policy developments

Government policy currently centres around the need to improve service delivery and to make sure that it is sustainable. Personnel expenditure and budgets therefore need to be driven by service delivery. This means that resource allocation should reflect varying situations where employment will improve the quality of service delivery or where personnel costs are crowding out non-personnel expenditure. For budgeting purposes, current government policy on personnel is to increase total public sector employment by 1 per cent per year.

Personnel expenditure and budgets need to be driven by service delivery

In 2004, government increased personnel expenditure in real terms to enable proper personnel budgeting, improve conditions of service, and improve the level of safety and security in the country.

In 2004, government increased personnel expenditure in real terms

Key policy initiatives in personnel policy:

- The 2004 Wage Agreement, which was the first multi-year wage agreement to be based on inflation projections. The Agreement enables greater stability in planning for personnel expenditure, while ensuring that public service employees receive real wage increases
- Providing housing allowances for all government employees, regardless of whether a public servant is a bondholder

- Introducing the government employees medical scheme, with the aim of providing medical benefits to all government employees and help in the fight against HIV and Aids
- Introducing pay progression and career pathing systems, to reward and recognise experience, seniority and satisfactory performance in the public service
- Increasing the number of policemen and policewomen by 9 090 over the next three years, to improve safety and security in the country
- Introducing policies on issues of incapacity leave and ill-health retirement, to ensure proper human resource management in government departments and provinces
- Introducing policies around restructuring in government to allow excess employees to leave the public service if they wish, to ensure that resources are freed up for non-personnel expenditure and to improve the level of service delivery.

Provincial personnel spending trends

A major success of provincial budgeting has been curtailing personnel expenditure. From 1997/98, government made a concerted effort to curtail personnel spending, by keeping its growth slower than total provincial expenditure. Consequently, its share has been falling from 55,5 per cent in 1997/98 to 46,5 per cent in 2004/05. It is set to stabilise at around 44 per cent by 2007/08.

Personnel expenditure increases by 4,4 per cent in real terms between 2003/04 and 2004/05

In 2004/05, provinces spent R87,9 billion on personnel – reflecting nominal and real increases of 8,8 per cent and 4,4 per cent from 2003/04, respectively. The strong growth in expenditure was caused mainly by the provisions of the 2004 Wage Agreement, which includes a significant wage increase for non-senior management service employees (levels 1 to 12). Another reason for the strong growth was the introduction of macro benefits and the 1 per cent pay progression to employees who performed satisfactorily. Projected growth in employment of 1 per cent also contributed to the real increase in personnel spending. The 2004/05 financial year was also the last year for the final phase in the scarce skills allowance provided for health professionals.

Wage increases are expected to slow because of lower inflation

Wage increases are expected to grow at a slower rate in future years due to lower inflation. But the wage bill will continue to rise due to employment growth and provision for real salary increases.

KwaZulu-Natal accounts for 20,4 per cent of provincial personnel expenditure

Within the aggregated provincial spending on personnel, KwaZulu-Natal accounts for 20,4 per cent of provincial personnel expenditure, Eastern Cape 16,3 per cent, Gauteng 15,4 per cent and Limpopo 14,2 per cent. Northern Cape accounts for the smallest share of personnel expenditure at 2,2 per cent, followed by Mpumalanga with 6,7 per cent and Free State with 7,1 per cent of provincial personnel expenditure.

The shares of personnel spending by province are correlated to the size of provincial populations: KwaZulu-Natal is the largest employer of all public servants, followed by Eastern Cape and Gauteng.

KwaZulu-Natal, Eastern Cape and Gauteng are the largest employers of public servants

Although combined personnel expenditure is increasing, the rate of growth is expected to significantly decrease (as shown in table 8.1) in Eastern Cape, Free State, Gauteng, Limpopo and North West. Growth in personnel expenditure has been slowing in Limpopo since 2002/03.

Table 8.1 Provincial personnel expenditure by province, 2001/02 to 2007/08

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
		Outcome		Preliminary outcome	Medium-term estimates		
R million							
Eastern Cape	11 198	12 210	13 352	14 363	15 123	15 999	16 766
Free State	4 763	5 172	5 714	6 212	7 106	7 589	8 003
Gauteng	10 594	11 452	12 640	13 501	14 672	15 549	16 396
KwaZulu-Natal	13 621	14 864	16 098	17 909	20 170	22 210	24 207
Limpopo	9 482	10 450	11 488	12 516	13 430	14 266	15 225
Mpumalanga	4 450	4 919	5 395	5 897	6 799	7 216	7 533
Northern Cape	1 410	1 542	1 737	1 946	2 205	2 325	2 456
North West	5 701	6 208	6 851	7 210	7 976	8 630	9 222
Western Cape	6 502	6 987	7 511	8 309	9 322	10 078	10 737
Total	67 722	73 804	80 786	87 861	96 802	103 862	110 545
Percentage growth							
Eastern Cape		9,0%	9,3%	7,6%	5,3%	5,8%	4,8%
Free State		8,6%	10,5%	8,7%	14,4%	6,8%	5,4%
Gauteng		8,1%	10,4%	6,8%	8,7%	6,0%	5,5%
KwaZulu-Natal		9,1%	8,3%	11,2%	12,6%	10,1%	9,0%
Limpopo		10,2%	9,9%	8,9%	7,3%	6,2%	6,7%
Mpumalanga		10,5%	9,7%	9,3%	15,3%	6,1%	4,4%
Northern Cape		9,3%	12,7%	12,0%	13,3%	5,4%	5,7%
North West		8,9%	10,3%	5,2%	10,6%	8,2%	6,9%
Western Cape		7,5%	7,5%	10,6%	12,2%	8,1%	6,5%
Total		9,0%	9,5%	8,8%	10,2%	7,3%	6,4%

Source: National Treasury provincial database

For budgeting purposes, provinces have been requested to budget for a 4,8 per cent salary increase in 2005, 5,7 per cent in 2006 and 5,7 per cent in 2007. In addition to this cost of living salary adjustment, provinces should also budget for the 1 per cent pay progression to recognise and reward seniority and good performance in the workplace. This will allow for a moderate expansion in personnel expenditure, while providing a real increase in public servant salaries. These budget projections and requirements are based on the 2004 Wage Agreement.

The 1 per cent pay progression recognises and rewards seniority and good performance

Table 8.2 Provincial personnel expenditure by sector, 2001/02 to 2007/08

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
		Outcome		Preliminary outcome	Medium-term estimates		
R million							
Education	41 577	45 524	49 591	53 441	57 460	61 536	65 708
% growth		9,5%	8,9%	7,8%	7,5%	7,1%	6,8%
Health	17 762	19 022	20 854	23 311	25 826	27 809	29 442
% growth		7,1%	9,6%	11,8%	10,8%	7,7%	5,9%
Social Development	991	1 175	1 379	1 541	2 150	2 330	2 500
% growth		18,6%	17,4%	11,8%	39,5%	8,3%	7,3%
Other	7 391	8 083	8 961	9 568	11 366	12 188	12 896
% growth		9,4%	10,9%	6,8%	18,8%	7,2%	5,8%
Total	67 722	73 804	80 786	87 861	96 802	103 862	110 545
% growth		9,0%	9,5%	8,8%	10,2%	7,3%	6,4%
CPIX	6,6%	9,8%	5,5%	4,2%	4,2%	5,3%	5,3%

Source: National Treasury provincial database

Sectoral trends

Education accounts for about 61 per cent and health for 26 per cent of provincial employment expenditure

Education and health constitute the bulk of provincial employment on a sectoral basis. In terms of expenditure and budgets, education accounts for about 61 per cent and health for 26 per cent.

Significant increases in budget allocation have been realised for personnel in education. The 2005 Budget allocated R6,9 billion for improving educator remuneration, including R500 million agreed to at the 2004 wage negotiations for tackling the backlogs in teacher remuneration.

In 2004/05, employment in education increased by 2,2 per cent, while expenditure increased by 7,8 per cent, translating into real growth of 3,4 per cent. A significant increase in personnel expenditure for social workers is also expected in 2005/06, and a R348 million additional allocation has been made for that in the 2005 Budget. Employment in health is expected to increase by 3,6 per cent, with expenditure projected to increase by 8,1 per cent on average over the MTEF.

Table 8.3 Personnel numbers by province and sector, 2001/02 to 2004/05

	2001/02	2002/03	2003/04	2004/05	Percentage average growth: 2001/02 – 2004/05
R million					
Outcome					
Eastern Cape	123 200	123 815	121 554	119 281	-1,1%
Free State	54 635	53 591	53 408	53 976	-0,4%
Gauteng	110 669	110 468	104 884	111 955	0,4%
KwaZulu-Natal	148 605	148 699	149 997	153 055	1,0%
Limpopo	110 802	106 673	105 621	109 885	-0,3%
Mpumalanga	50 003	49 986	49 938	52 046	1,3%
Northern Cape	15 358	15 387	15 961	16 007	1,4%
North West	63 337	63 593	62 359	63 016	-0,2%
Western Cape	66 889	65 498	63 981	64 425	-1,2%
Sub total	743 498	737 710	727 703	743 646	0,0%
By sector					
Education	416 515	417 909	411 848	420 956	0,4%
Health	216 361	215 150	217 248	225 161	1,3%
Social development	14 577	15 583	16 180	14 498	-0,2%
Other	96 045	89 068	82 427	83 031	-4,7%
Total	743 498	737 710	727 703	743 646	0,0%

Source: Vulindlela

Provincial employment trends

Provincial employment increased by 2,2 per cent in 2004/05 from 2003/04, while expenditure increased by 8,8 per cent. Significant increases in employment were evident in Gauteng, where employment grew by 6,7 per cent, in Limpopo with 4 per cent growth and in Mpumalanga with 4,2 per cent growth. On the other hand, employment in Eastern Cape contracted by 1,9 per cent.

In 2004, employment in education increased by 2,2 per cent, health increased by 3,6 per cent and other services by 0,7 per cent, while social development decreased by 10,4 per cent.

Technically skilled staff form the largest group of government employees differentiated by skill levels. These skilled employees (levels 6 through 9) comprise 62 per cent of all public sector employment and are mostly educators and nurses. National government employs a comparatively larger share of managers than provinces, as the latter are primarily responsible for the delivery of services.

Technically skilled staff make up the largest group of government employees

Table 8.4 SMS and non SMS numbers and ratio per province, 2001/02 to 2004/05

	2001/02	2002/03	2003/04	2004/05
December				
Senior Management (SMS)				
Eastern Cape	199	279	335	397
Free State	160	191	216	255
Gauteng	381	504	517	550
KwaZulu-Natal	277	363	440	483
Limpopo	154	193	251	329
Mpumalanga	116	144	151	166
Northern Cape	45	81	85	107
North West	115	168	206	244
Western Cape	256	255	275	287
Sub total	1 703	2 178	2 476	2 818
Non Senior Management (non SMS)				
Eastern Cape	123 001	123 536	121 219	118 884
Free State	54 475	53 400	53 192	53 721
Gauteng	110 288	109 964	104 367	111 405
KwaZulu-Natal	148 328	148 336	149 557	152 572
Limpopo	110 648	106 480	105 370	109 556
Mpumalanga	49 887	49 842	49 787	51 880
Northern Cape	15 313	15 306	15 876	15 900
North West	63 222	63 425	62 153	62 772
Western Cape	66 633	65 243	63 706	64 138
Sub total	741 795	735 532	725 227	740 828
Total	743 498	737 710	727 703	743 646
Ratio for SMS to non SMS				
Eastern Cape	1 : 618	1 : 443	1 : 362	1 : 299
Free State	1 : 340	1 : 280	1 : 246	1 : 211
Gauteng	1 : 289	1 : 218	1 : 202	1 : 203
KwaZulu-Natal	1 : 535	1 : 409	1 : 340	1 : 316
Limpopo	1 : 718	1 : 552	1 : 420	1 : 333
Mpumalanga	1 : 430	1 : 346	1 : 330	1 : 313
Northern Cape	1 : 340	1 : 189	1 : 187	1 : 149
North West	1 : 550	1 : 378	1 : 302	1 : 257
Western Cape	1 : 260	1 : 256	1 : 232	1 : 223
Total	1 : 436	1 : 338	1 : 293	1 : 263

Source: Vulindlela

As table 8.4 shows, in total, provinces have gradually increased the number of senior management service staff. The ratio of senior management services (SMS) employee to non-senior management services employee has decreased from 1:436 in 2001 to 1:263 in 2004. Significant changes have been in Eastern Cape, Limpopo and North West. This will improve service delivery in provinces, as managerial leadership is essential in the delivery of good and quality services.

Policy developments for police, educators and social workers

To improve the quality of service delivery in government, it is important to attract and retain skilled labour in the public service. This has prompted government to introduce policies directly targeted at attracting and retaining best performing employees and enabling government to compete for these skills in the broader labour market.

Government is in the process of introducing career pathing and pay progression systems in the departments of safety and security, education and social development, to improve the quality of services and reward good performance. In the 2005 Budget, the police, educators and social workers were targeted to implement this policy.

Career pathing is to be introduced for police, educators and social workers

Other sectors are also in the process of developing their own career pathing and pay progression systems.

The South African Police Service (SAPS) received an additional allocation of R4,2 billion over the MTEF, which will improve the remuneration structure of policemen and policewomen. The 2005 Budget also made R660 million available to the SAPS to hire 9 090 more policemen and policewomen over the next three years. This will translate into a ratio of 1 police to 378 citizens, which is comparable with international standards. This increase is aimed at improving the visibility of police on the street, improving security at identified national key points and improving overall staffing.

The SAPS is to hire 9 090 more police personnel over three years

The 2005 Budget also made an additional R6,9 billion available for the improved remuneration structures of educators, paying particular attention to career pathing, pay progression, rewarding and retaining those with excellent performance, and scarce skills. These funds also aim to incentivise educators to teach in certain schools, especially in rural areas, and to encourage maths and science teaching in schools. This will help to provide good quality education and a skilled workforce.

There are incentives for educators to teach in rural schools, and to encourage maths and science teaching and learning

A new grading structure and job description framework for social workers has been developed, and R348 million over the MTEF has been made available to implement it.

2004 Wage Agreement

The 2004 Wage Agreement, signed in September 2004, and covering wages for most national and provincial government employees, sets a precedent and model for future agreements reached in the Public Sector Co-ordinating Bargaining Council. The 2004 agreement sets wage growth according to government's inflation forecast rather than on historical inflation. This type of forward-looking agreement greatly improves government's ability to predict and budget for personnel expenditure. It also leads to more stability in employment and increased income for employees in the public services.

The 2004 Wage Agreement bases wage growth on government's inflation forecast

The 2004 Wage Agreement is a three-year agreement, where salary increases will be based on projected inflation (CPIX) figures from National Treasury's forecast model plus a 0,4 per cent increase. This provides employees with a real wage increase over and above the inflation rate. A stable pay progression has also been implemented, where employees performing satisfactorily will receive an additional 1 per cent salary increase a year.

The agreement also provides for employees performing satisfactorily to receive an additional annual 1 per cent salary increase

The forward-looking wage agreement brings government wage cost growth in line with the inflation targeting monetary framework, and should contribute to slower growth in administered prices in coming years. The agreement includes a clause that allows for salary

All public servants are to receive a housing allowance

adjustments if the actual inflation rate is higher than the National Treasury forecast. In this case, employees will get the difference added to the increase in the following year. In 2004, the settlement rate for non-senior management service employees was 6,2 per cent, which resulted in a 1,2 per cent real wage increase.

The 2004 Wage Agreement provides for housing allowances for all public servants, even if they are not bondholders. It also provides for medical aid assistance for all public servants. The housing allowance, which will be phased in over a period of five years, beginning on 1 January 2005, is expected to cost government approximately R2,5 billion once it is fully phased in.

The agreement provided an additional allowance for educators to compensate for the lack of pay progression between 1996 and 2002. R670 million has been set aside for this and has been allocated in provincial budgets to implement.

The government employees medical aid scheme will be implemented from 1 January 2006

Government has established a new medical aid scheme, which was registered in 1 January 2005. The scheme is intended to lower the cost of medical aid to government employees and expand the number of employees covered by health insurance. (Only about 59 per cent of public servants are currently covered by a medical aid.) The government employees medical scheme is expected to start operating on 1 January 2006. A steering committee has been established to finalise issues such as membership enrolment into the scheme and the appointment of administrators. The scheme is to be phased in over five years and is expected to cost government approximately R2,9 billion annually once it is fully phased in. However, the cost of coverage per member is expected to decline as more employees enrol. A key contributor to lower costs will be a regulatory framework within the scheme that allows for competition between administrators, and scale economies that the size of the scheme will yield.

Conclusion

The overall objective for good personnel management is that it is driven by service delivery through improved efficiency and productivity. To achieve this, government needs to:

- create a balance in the use of resources, to ensure that non-personnel expenditure is not crowded out by personnel expenditure
- make sure that performance becomes the basis for remuneration and reward systems in personnel policy and management
- create flexibility in the remuneration system of professionals by introducing broad-banding remuneration systems, to enable government to compete for scarce and high skills in the labour market through competitive pricing
- empower the public service to drive the development and implementation of policy.

Any government intervention that does less than this will result in a sub-optimal public service.