

B

Compensation data

The compensation of public employees is a core determinant of government spending. This annexure presents budget data and trends in compensation spending. It also examines data from government's payroll system (PERSAL) to gauge trends in public-service employment. A fuller data set is available at www.treasury.gov.za/documents/MTBPS/2017. Headcount data has been extracted from the PERSAL system. Two points should be noted:

- The data has been adjusted to reflect the average number of full-time equivalent¹ employees over a year. As a result, there may be minor differences between the data published here and information contained in the *2017 Estimates of National Expenditure*, which provided a snapshot of unadjusted headcounts at year end.
- About 240 000 employees on government's payroll are contracted through initiatives such as the Community Work Programme and the Expanded Public Works Programme. Since they are not part of the public service, they are not included in the information presented in this annexure.

Unless otherwise indicated, the data is presented in real terms: rand values have been adjusted for inflation and reflect 2016 equivalents.

Trends in compensation spending

Compensation spending has grown more quickly than the overall budget over the past eight years, and accounted for 35.3 per cent of consolidated expenditure in 2016/17, up from 32.9 per cent in 2008/09. Only interest payments grew faster than compensation, and the combination of these two factors has resulted in much slower growth in capital, goods and services, and transfer payments.

Table B.1 Summary of consolidated public expenditure

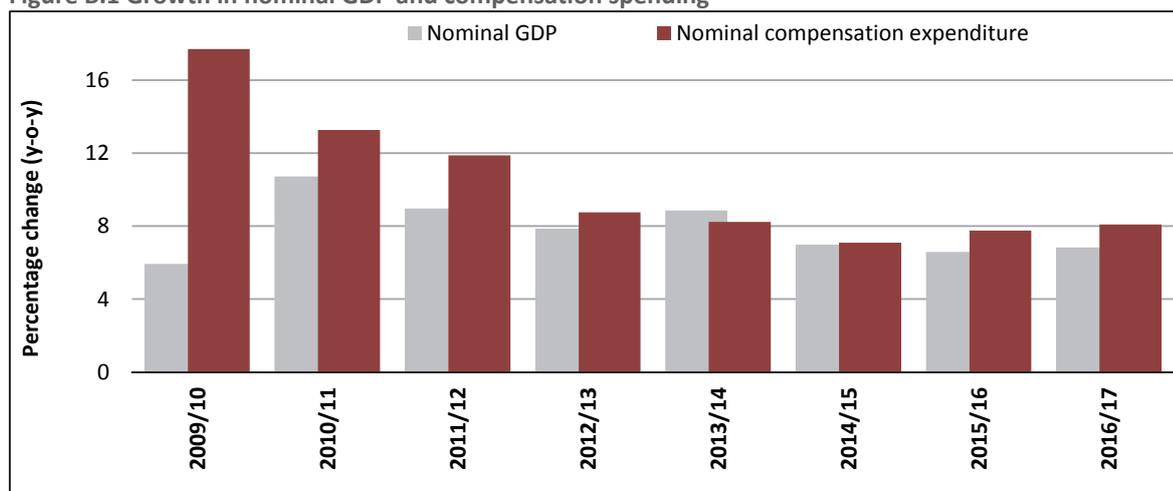
R million	2008/09 Outcome	2016/17	Average annual growth	% of total spending in 2016/17
Compensation of employees	233 345	510 328	10.3%	35.3%
Transfers	237 946	472 938	9.0%	32.7%
Goods and services	117 809	208 098	7.4%	14.4%
Interest payments	58 627	153 607	12.8%	10.6%
Capital	49 707	93 564	8.2%	6.5%
Total	708 489	1 445 719	9.3%	100.0%

Source: National Treasury (budget data)

Since 2008/09, nominal GDP has grown at an annual average of 7.9 per cent a year. Over the same period, spending on public-service compensation has grown at 10.3 per cent.

¹ An employee who receives fewer than 12 salary payments per year – for example, because they are temporary or contract staff – is not counted as one full-time employee. Their contributions are aggregated into full-time equivalents.

Figure B.1 Growth in nominal GDP and compensation spending



Source: National Treasury (budget data)

Between 2008/09 and 2016/17, compensation spending increased by about 37 per cent in real terms, or 4.1 per cent a year. About a quarter of the increase resulted from expanded employment, with the remaining three-quarters due to higher remuneration.

In South Africa's constrained fiscal environment, rising compensation budgets increasingly crowd out other expenditure, including the complementary inputs required for public servants to execute their functions effectively. In labour-intensive national departments – such as defence, justice and the police – compensation absorbs a rising share of budget allocations. In provinces, compensation pressures are particularly high in the health sector. In Limpopo, for example, compensation accounts for 71 per cent of the health budget, up from 58.9 per cent in 2008/09.

Table B.2 Compensation spending as a share of total expenditure

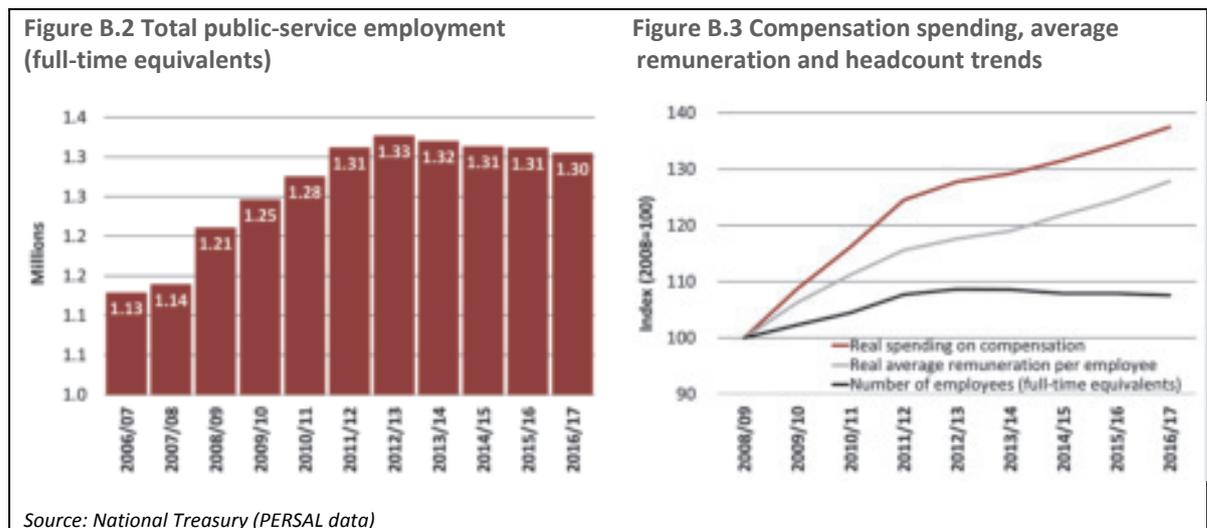
Department/Sector	2008/09 % of Total	2016/17 % of Total
National labour intensive departments	57.7%	67.7%
Correctional services	63.0%	66.9%
Defence	38.2%	57.3%
Justice	54.1%	55.9%
Police	70.0%	76.6%
Provincial health departments	57.0%	63.2%
Eastern Cape	58.0%	65.6%
Free State	64.7%	64.1%
Gauteng	52.0%	62.2%
KwaZulu-Natal	58.9%	63.1%
Limpopo	58.9%	71.0%
Mpumalanga	58.5%	63.2%
North West	56.6%	62.0%
Northern Cape	51.1%	53.1%
Western Cape	56.3%	58.9%
Total consolidated expenditure	32.4%	35.3%

Source: National Treasury (budget data)

Public-service employment trends

Between 2001/02 and 2011/12, public-service employment grew rapidly. Employment in public health increased from 216 000 to 318 000. Employment in criminal justice – including police, correctional services and justice – grew to 261 000 from 181 000. Employment in public education increased from 419 000 to 494 000.

The rate of expansion slowed after 2011/12. Measured by full-time equivalents, personnel numbers peaked at 1.33 million in 2012/13 and have fallen by about 22 000 since then. In health, education and criminal justice, employment levels have declined marginally in recent years. This decline reflects the implicit trade-off between headcount and salaries. While the number of employees stagnated, real remuneration per employee continued to rise after 2011/12, driving up overall spending on compensation.



There are considerable variations within the aggregate trends. As a result, the data should be interpreted with care. Reaching accurate conclusions about the composition of employment in a given sector requires detailed attention to its specific dynamics. For example, while the total number of South African Police Service (SAPS) employees rose from just over 170 000 in 2008/09 to 190 000 in 2016/17, much of this increase resulted from recruitment of civilian employees. This might be viewed as crowding out frontline staff with administrative employees. But civilian personnel cost the SAPS less to perform tasks that would otherwise occupy the time of uniformed officers, freeing the latter to fight crime. The number of police officers has remained broadly stable at about 150 000.

Table B.3 shows trends in employment and remuneration in the largest occupation-specific dispensation (OSD) groups in the public service. Employment of teachers has not increased since 2009/10, but the nursing provision has continued to grow. On average, remuneration of these two groups has outpaced inflation by more than 2 percentage points over the past seven years.

Table B.3 Employment¹ and remuneration² in major OSD groups

OSD group	2009/10	2016/17	Average annual growth
Teachers			
Employment	404 733	404 281	0.0%
Average compensation	317 028	374 450	2.4%
Nurses			
Employment	115 813	141 686	2.9%
Average compensation	287 866	332 524	2.1%
Police and corrections			
Employment	173 965	179 732	0.5%
Average compensation	279 558	325 524	2.2%

1. Full-time equivalents

2. Real 2016 rand

Source: National Treasury (PERSAL data)

Table B.4 disaggregates the changes in employment by salary level for all employees on the payroll. Although there has been significant headcount growth at managerial levels (salary levels 13-16), the greatest share of growth has been in the ranks of those receiving OSDs. These are generally skilled professionals rather than managers. Absolute declines in employment at the lowest salary levels largely reflect progression and promotion of employees to higher levels, as discussed below.

Table B.4 Employment by level (full-time equivalents)

Salary level	Non-OSD		Average annual growth	OSD		Average annual growth
	2008/09	2016/17		2008/09	2016/17	
01 - 04	231 239	175 966	-3.4%	80 980	74 633	-1.0%
05 - 08	143 584	207 340	4.7%	529 514	566 549	0.8%
09 - 12	36 434	39 365	1.0%	132 018	170 864	3.3%
13 - 16	7 021	9 011	3.2%	2 514	10 778	20.0%
Total	418 278	431 682	0.4%	745 026	822 824	1.2%

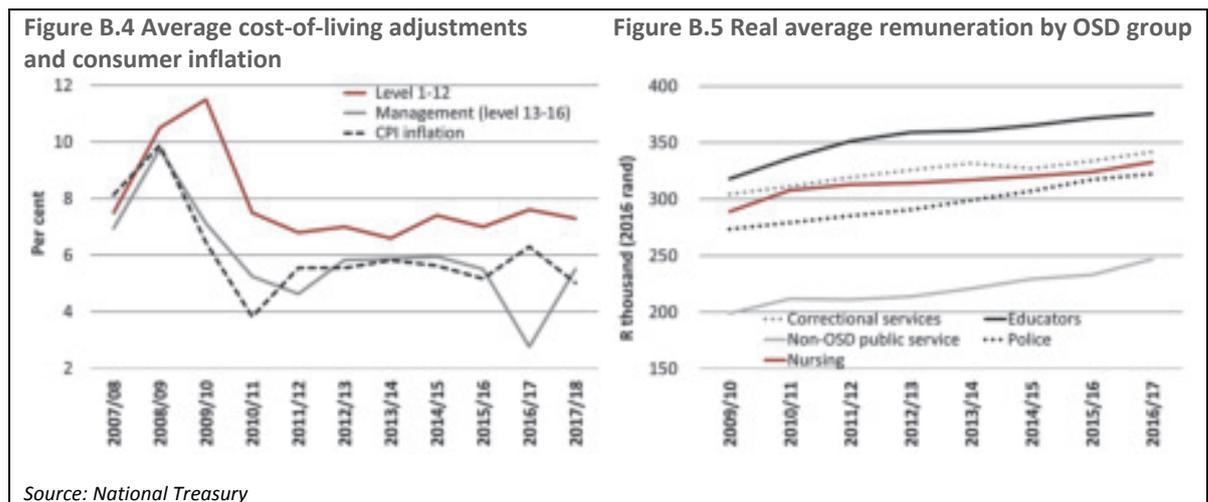
Source: National Treasury (PERSAL data)

Remuneration trends

Employee salaries have increased by an average of 29 per cent since 2008/09. Average remuneration per employee has grown from about R260 000 a year (in 2016 rands) in 2008/09 to R335 000 a year in 2016/17. This rise in remuneration is the result of several factors:

- Above-inflation increases to basic salaries through annual cost-of-living adjustments.
- The introduction of OSDs, which led to a level shift in the remuneration and conditions of service of teachers, nurses, police officers and others.
- The introduction of a new salary grading system in 2009 for public servants not receiving an OSD.
- Promotions, salary progressions and other human resource policies leading to an upward drift in the distribution of personnel across pay scales.

Over the last decade, negotiated annual cost-of-living adjustments have exceeded Consumer Price Index (CPI) inflation by an average of 2 per cent. In some years, this resulted from agreements set well above the prevailing inflation rate. At other times, lower-than-anticipated inflation has boosted the value of adjustments based on projections. For example, in the current year public servants received a cost-of-living adjustment of 7.3 per cent, based on an inflation forecast of 6.3 per cent. Inflation has now been revised down to 5 per cent, implying an effective salary increase of CPI plus 2.3 per cent.



From 2008, when OSDs were introduced into the salary structure, they had a pronounced effect on average remuneration, as shown in Figure B.5. In general, non-OSD public servants earn significantly less than designated occupations. Teachers earn more than the other large OSD groups. Smaller OSD groups receiving higher salaries – such as doctors, lawyers and engineers – are not shown in the figure.

Other improvements in conditions of service boost average remuneration levels. These include a complex mix of negotiated benefits, allowances, overtime provisions and practices that make it difficult to provide a single statistic summing up the effect of bargaining outcomes on remuneration.

Promotion, progression and other remuneration policies

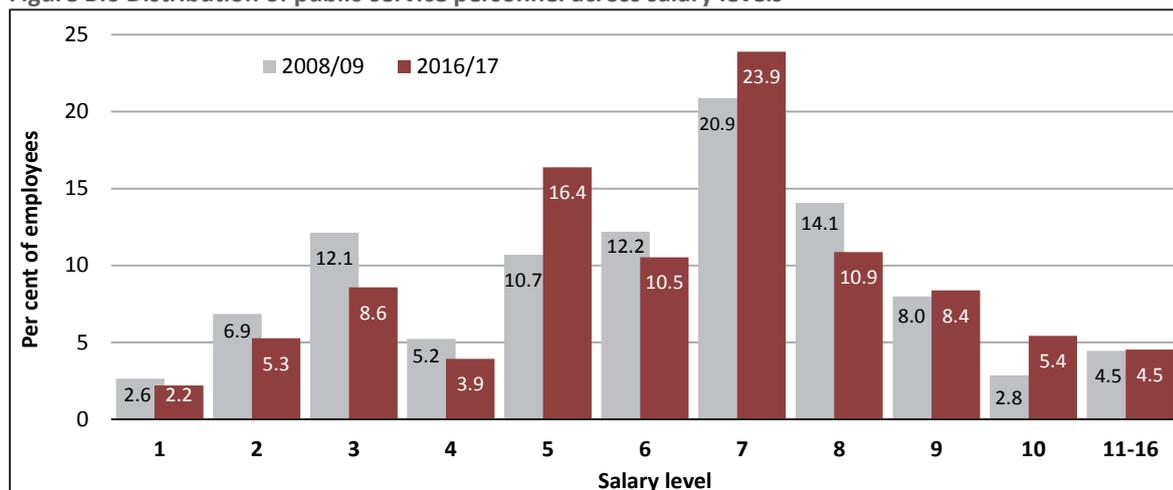
Other policies also increase average remuneration. These include:

- Notch progression, where employees move up the scale within their salary level.
- Promotions as vacancies arise, and the upgrading of personnel in line with revised job descriptions.
- Wholesale promotion of personnel from one salary level to another. In 2013/14, for example, all clerks were upgraded from level 1 - 4 to level 5, and from level 5 to 7.

While progression and promotions are intended as performance-linked incentives, in many sectors they have become automatic. As a result, most public servants receive an automatic cost-of-living adjustment and an increase from salary-scale progression. On average, promotions and notch progressions increase government's wage bill by 1.5 per cent each year.

Figure B.6 shows that between 2008/09 and 2016/17, the proportion of public servants in the lowest four salary levels fell from 26.8 per cent to 20 per cent, while the proportion of staff distributed across levels five to seven rose from 43.8 per cent to 50.8 per cent. This upward drift in the distribution of employees raises average remuneration significantly over time.

Figure B.6 Distribution of public-service personnel across salary levels



Source: National Treasury

Level and distribution of remuneration

Table B.5 shows that wage growth has been somewhat faster at lower salary levels than at higher ones. Average real remuneration has declined for personnel in level 16 of the pay scale.

Table B.5 Average remuneration by level (Real 2016 rand)

Level	2008/09	2016/17	Average annual growth
01 - 04	R119 456	R159 573	3.7%
05 - 08	R258 070	R308 187	2.2%
09 - 12	R480 949	R576 294	2.3%
13 - 16	R1 092 923	R1 232 642	1.5%
Average	R259 966	R337 971	3.3%

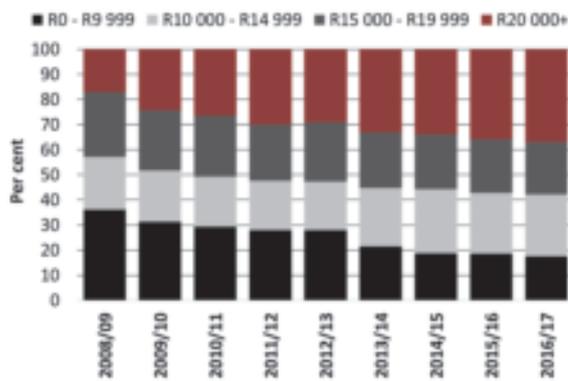
Source: National Treasury (PERSAL data)

This reflects two factors. First, cost-of-living adjustments and other improvements in remuneration have been targeted to benefit lower-income earners. Second, allowances set in nominal terms – such as housing allowances and employer medical contributions – constitute a larger share of the remuneration of lower-income employees, who receive larger proportional gains when such allowances are improved.

The combination of salary adjustments, improved benefits and upward progression has resulted in a large increase and equalisation in remuneration levels in the public service over the past decade. In 2016/17, nearly 461 000 public servants (37 per cent of the total) earned more than R20 000 per month, up from 17 per cent, or 199 000, in 2008/09. Just 17 per cent earned less than R10 000 per month in 2016/17, compared with more than 35 per cent of public servants in 2008/09.

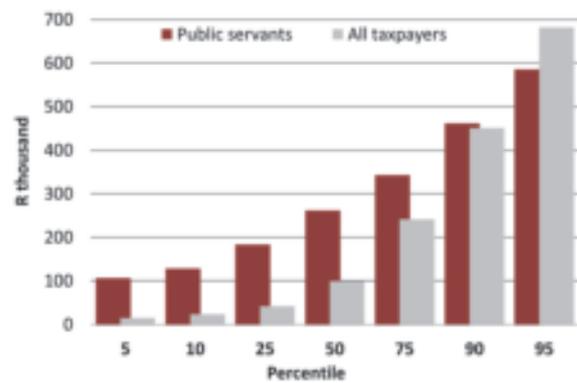
Figure B.8 – based on data from South African Revenue Service tax filings – shows that public servants tend to receive higher remuneration than taxpayers in general at every point of the distribution up to the 90th percentile. While the income of the median taxpayer in 2014 was just under R100 000, the income of the median public servant was over R260 000. Only at the highest income levels do public servants earn less than the average taxpayer. Taxpayers in the 95th percentile earned about R682 000 compared with R563 000 earned by public servants in that percentile.

Figure B.7 Distribution of public servants by real average monthly remuneration in 2016 prices



Source: National Treasury

Figure B.8 Distribution of income of public servants compared with all taxpayers



Source: National Treasury based on SARS data for 2014

The income of public servants is more equally distributed than is the case for income-earners as a whole. The highest-paid 1 per cent of public servants receive an income 23 times that of the lowest-paid 1 per cent. By comparison, the income of the top 1 per cent of all taxpayers is 633 times more than the lowest 1 per cent.

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