PUBLIC SECTOR COMPENSATION

A data reference guide

Public Servants Association

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Key takeaways

1. Compensation in the public sector accounts for 35,3% of total government spending. Compensation is a much higher percentage of spending at provincial level (62% of expenditure) versus national level (10,7% of expenditure).

2. Central government expenditure ranks low by international standards, as the 107th largest of 141 countries.

3. However, general government expenditure ranks high by international standards, as 12th largest out of 86 countries.

4. Compensation in government production costs – which includes outsourced work – as a share of GDP ranks South Africa as the 3rd highest out of 37 countries, of which the majority are richer OECD countries. High spending on outsourcing seems to underpin this high ranking.

5. There are varying levels of pay structures in other countries whose economic profiles broadly compare with South Africa.

6. South African public servants are better paid than private sector works, but primarily in less skilled and lower-income positions. Highly educated workers tend to earn more in the private sector.

Interpreting public sector wage data

Data on compensation in the public sector is often complex to use. A number of factors can make it hard to compare between countries, and may exaggerate or underestimate the real wages going to public servants. A few key factors should be considered when interpreting the following data:

1. **The structure of government**: South Africa's government is highly fragmented, with government departments at national, provincial and municipal level, and range of other agencies and SOEs. The data on compensation around these different levels is not centralised. The National Treasury's budget information, for example, lists spending on 'compensation of employees', but this only includes direct spending on employees by national departments, and can therefore be misleading. For example, compensation for teachers, one of the largest parts of compensation spending, is not included in the national data, because teachers are employed at the provincial level. Caution should be taken in which set of compensation data is used.

2. **Indirect employment**: Many people who work for government are not directly employed by government, with external consultants playing an important role that is not reflected in the data. This can change the interpretation of data. For example, declines in wages or compensation can seem like a saving, but these declines may limit the ability of

government to recruit talent civil servants, and might actually increase spending, because of the need to bring in consultants.

3. **Structure of service delivery**: Similarly, multiple government functions can be outsourced, either to entirely private bodies (such as private schools) or to semi-government bodies (like SOEs). When comparing wage bills across countries, it should be noted that some countries may take a more public-focused or more private-focused approach to service delivery, and this will impact spending on the public sector wage bill.

4. **Cost of living**: Similarly, different wage bills across countries generally do not account for costs of living. For this reason, wages are typically quoted as a percentage of GDP, government spending, or government revenue. However, cost of living can still have an impact. Central government employees in Brazil, for example, tend to live in Brasilia, one of the world's most expensive cities, and therefore may be paid higher than in other parts of the world.

5. **Packaging of remuneration**: Finally, government compensation budgets generally include both wages and benefits. This complicates an easy understanding of compensation. Benefits programmes, such as medical aid, can often cost government less, while still creating very large benefits for employees. The expansion of a benefit programme could look like a marginal increase in spending, while actually being a significant improvement in pay conditions for workers. Understanding the wage bill therefore requires understanding 'good compensation' (things like medical aid which are otherwise expensive) versus 'bad compensation' (marginal benefits that don't mean savings for civil servants).

South African public sector wage data

Approximately 1,3 million public servants are employed by the South African government, as can be seen in Figure 1. Total consolidated government expenditure for 2016/17 was over R510 billion, and accounted for 35,3% of total government spending, up from 32,9% of total spending in 2007/08.[i]

Figure 1: Employment and remuneration in the public sector, by level

Salary level	Employment		Average remuneration		
	2008/09	**2016/17**	**2008/09**	**2016/17**	**Av annual growth**
01 - 04	312 219	250 599	R119 456	R159 573	4%
05 - 08	673 098	773 889	R258 070	R308 197	2%
09 - 12	168 452	210 229	R480 949	R576 294	2%
13 - 16	9 535	19 789	R1 092 923	R1 232 642	2%

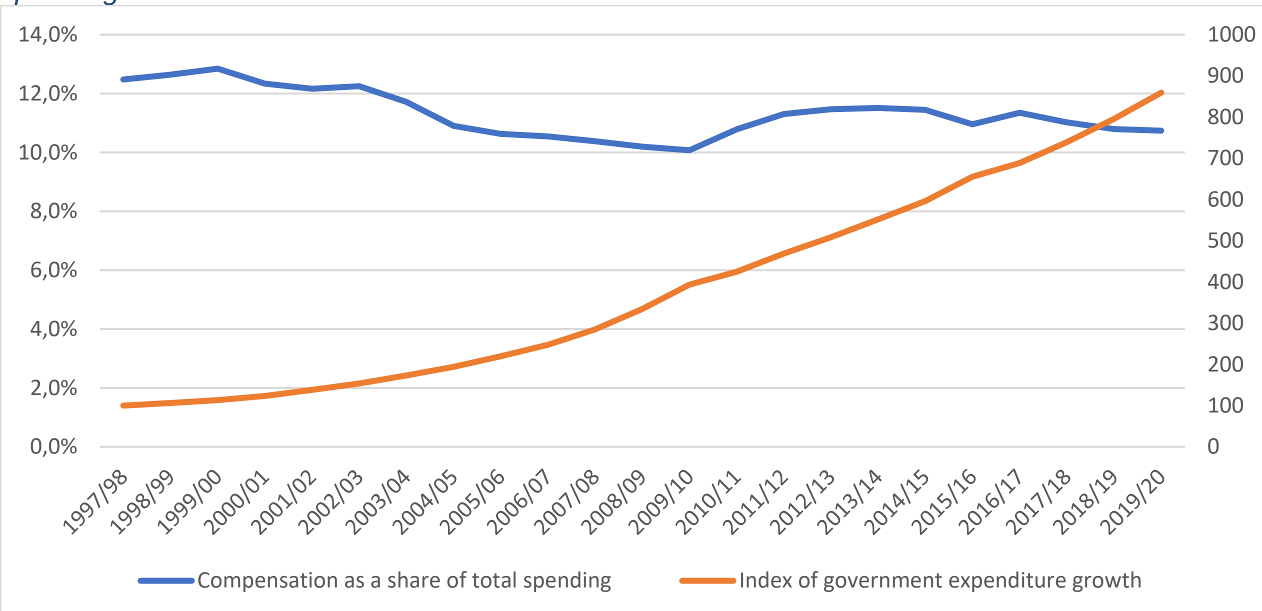
Source: National Treasury, MTBPS 2017, based on PERSAL data

Data on compensation of employees in the public sector is generally separated between the national budget and provincial budget, with some other areas – such as SOEs and other institutes – not included in either set of data.

Wages as a share of national government expenditure have remained relatively constant over time, shrinking from 12,5% of total spending in 1997/98 to 10,4% in 2007/08, and growing to 11%

in 2017/18 – as can be seen in Figure 2. Despite this, wage growth continues apace, with the share of expenditure remaining constantly largely because of rapid growth in government spending.

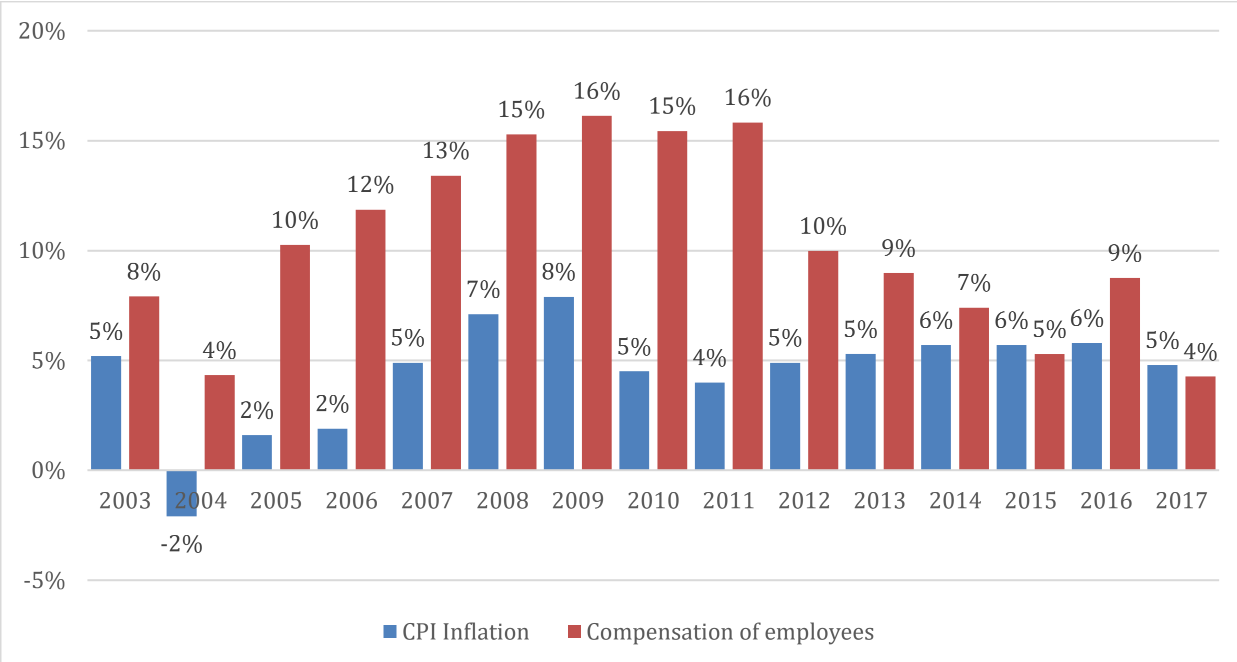
Figure 2: Compensation as a share of public sector expenditure, against total government spending



Source: National Treasury, Budget 2018

National public sector compensation grew very rapidly between 2005 and 2011, but growth has slowed in recent years, as can be seen in Figure 3. This slowing coincided with a slowdown in CPI, which has been caused by the general weakness in the South African economy.

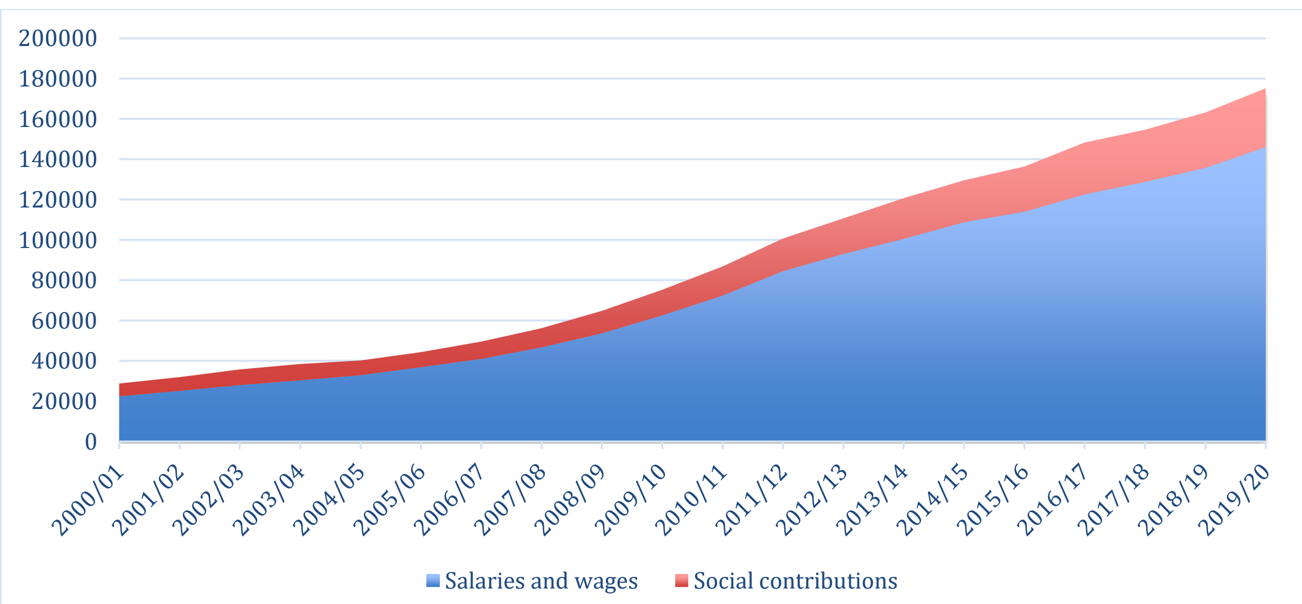
Figure 3: National public sector compensation growth vs CPI inflation



Source: National Treasury, Budget 2018

As can be seen in Figure 4, benefits as a share of compensation have declined over time, from 22,3% in 2000 to 16,6% in 2010, before expanding marginally to 16,8% in 2017.

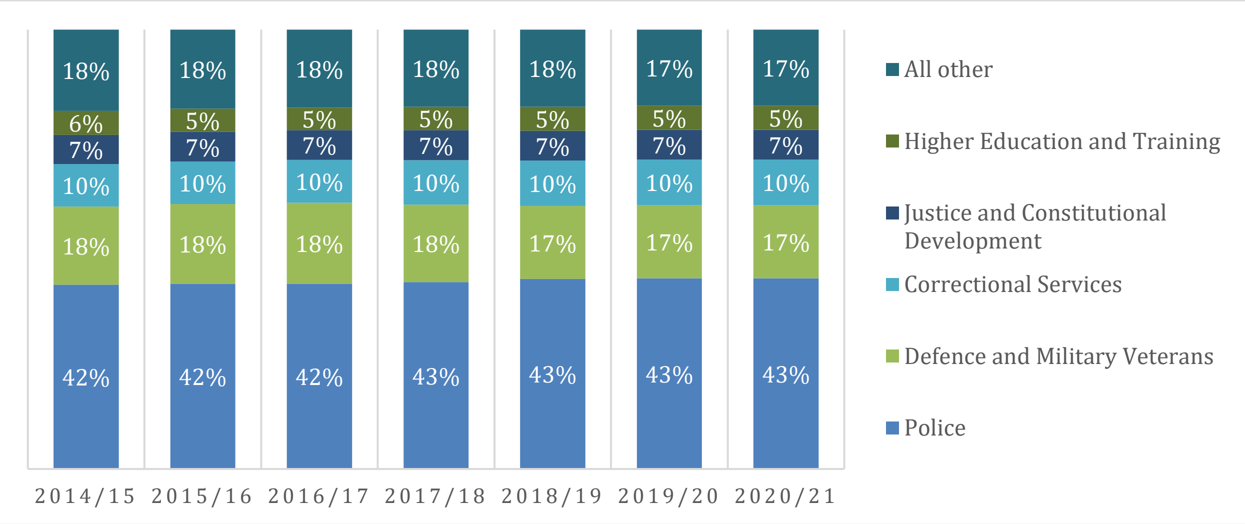
Figure 4: Benefits and salaries as a share of public sector compensation



Source: National Treasury, Budget 2018

Unsurprisingly, departments that employ the most people claim the highest share of national department compensation payments. Police and correctional services together account for 60% of total national public sector compensation spending; while higher education, justice, and defence similarly account for 29%. The remaining 35 of departments account for a relatively small share of compensation expenditure, demonstrating the bias in government spending towards mass-employed positions and against professional civil servants.

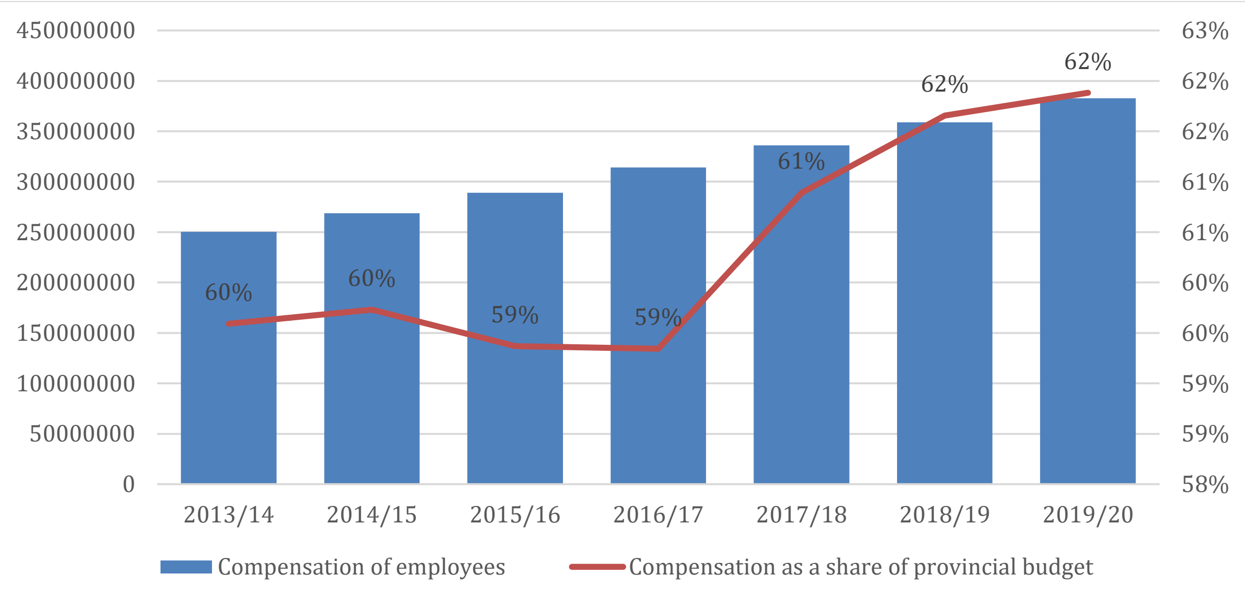
Figure 5: Share of National Budget compensation expenditure, 2018



Source: National Treasury, Budget 2018

Education spending is not included in the above calculation, as teachers are paid from provincial budgets. Compensation is the largest share of provincial government expenditure, accounting for a much higher percentage of the total budget, as can be seen in Figure 6 below.

Figure 6: Provincial compensation and share of provincial budget



Source: National Treasury, Budget 2018

State owned enterprises report separately from the rest of government, and successful SOEs do not draw from the public budget in order to fund their activities. However, multiple SOEs remain highly dependant on government support for their operations, and are therefore important to consider. As can be seen in Figure 7 below, there is substantial pay disparity between SOEs, which largely reflects the divergent responsibilities of the enterprises, with high skilled SOEs like Denel and SAA spending substantially more on compensation than mass employment SOEs like the Post Office.

Figure 7: Employee expenses at select SOEs

SOE	**Number of employees**	**Employee expenses**	**Average compensation per employee**
SAA	5752	R6 131 000 000	R1 065 890,13
Eskom	47658	R33 178 000 000	R696 168,53
Denel	4941	R2 275 000 000	R460 433,11
Transnet	58828	R20 821 000 000	R353 930,10
Post Office	18729	R3 687 427 000	R196 883,28

Source: Author's compilation, based on 2017 Annual Financial Statements of SOEs

Comparative public sector wage data

Public Sector Wages in Brazil

The regulatory framework in Brazil provides for collective bargaining in wage negotiations. This has been the case since the 1988 constitution. Albeit collective bargaining is legislated for the public sector, the public-sector wages determination regulations are lax in Brazil and as such creates variations together with huge discrepancies and inequalities in the remuneration structure. The most apparent and clear legislative tool aimed at addressing the determination of public-sector wages is the constitutional clause that sets the highest possible income that public servants can earn which is set at $13 360 per month. However, the constitutional limit on public servants' income has been greatly ignored. A number of Brazilian civil servants earn an income in excess of the stipulated limit. For instance, in 2013, a librarian received a monthly income of $24 000 while an auditor in the Minas Gerais state earned $81 000 in a month. These incomes are referred to as 'super salaries'. At the opposite end of this exaggerated income scale are the teachers and policemen who earn, on average, $1000 a month. The gaps in income lay bare the income distortions in Brazil's public sector.

The income levels in the Brazilian public sector make employment in the public sector attractive to most. Careers in the public service has attracted skilled employees. This is particularly the reason because during President Cardoso's tenure a drive to professionalise the public sector was incepted. Chief among the initiatives undertaken to professionalise the public sector were the entrance examinations for public sector employees. The entrance examinations system advances the professionalization of the public sector through promoting employment based on merit i.e. a system of meritocracy. These state employment examinations are mostly in the form of multiple choice and test a range of subjects relevant to the public service and examines the candidates' basic skills and academic knowledge. The public administration reforms coincided with increasing the technical and educational requirements for public sector roles.

Despite the increase in the educational requirements for a career in the sector, Brazil's public sector is a significant employer. In 2011, the Brazilian public service had an estimated 9.6 million public servants. These public servants were spread across the different levels of governments. Brazil's 5 564 municipalities employed 5.3 million people whilst the 26 states employed 3.3 million people and approximately 1 million employees in the federal government. The total number of public sector employees as a percentage of the total population was 5.6%. These figures represents an estimated 11.9% of the employed population in Brazil. These employees work on a 40 hours week basis and work an average of 221 days a year. The compensation of the Brazilian public service equalled 4% of the country's GDP in 2011. The public sector wage bill has since increased to 13.1% of the GDP in 2015.

In 2015, the number of Brazil's public sector employees is not necessarily high and is in fact lower than the average for OECD countries. Additionally, the percentage of public sector employment compared to total wage employment is relatively lower at 18% and 24% of the total formal employment. The federal government employed only 10% of the country's public servants and the rest employed being employed by states and municipalities. Given that the responsibilities of health, education and policing lies with states and municipalities, the seemingly high number of employees at both the state and municipality levels is comprehensible. Moreover, taking into account that Brazil does not have a high number of public sector employees compared to OECD countries, it becomes apparent that the cause of the high public wage bill is not the size of the public sector, but rather the high salaries. It is also worth noting that in 2015 the average salary in the Brazilian public sector was R$ 40 000 as compared to an average of R$ 25 000 in the private sector. This means that the public sector pay was 70% more than that of the private sector.

Given the current economic context of Brazil, the high salaries are a concern. Brazil is currently experiencing a declining economy with a budget deficit at a 10% of the GDP, high interest rates from the central bank and a government debt ratio of 74.04% in December 2017 among others. The President Temer administration intends to make the restoration of Brazil's sinking public finances as its focal point. Central to addressing the dire public finances is the curtailing the public wage bill which has been rising at above inflation levels over the past number of years together with the pension bill which aims at setting the minimum retirement age which does not currently exist.

In terms of public sector wage increments, the agreements are usually made on three-year cycle whilst. As for retirement, the current legislation in Brazil only stipulates that women can retire with full pension benefits after 30 years of service whilst the length of service required for men to attain full pension benefits is 35 years of service. At present, men in Brazil retire at the age of 54 and the age of 52 on average. From 2000 to 2015, public pensions have increased from 3% to 7% of the GDP. As a result, benefits outstrip revenues by tens of billions on an annual basis. The pension bill proposes a minimum retirement age of 65 years for men, 62 years for women and a minimum of 25 years of contribution in order to qualify for pension benefits.

Public Sector Wages in India

India presents an intriguing case study due to the size of its population. Not only does India provide an interesting case study due to its population size, it provides one based on the mechanism employed to determine public sector employee remuneration. Furthermore, India has over the past five years boosted an average economic growth of 7.15%, peaking in 2015 at 8.01%.

The Indian public sector employed an estimated 18.5 million people in the financial year 2014. Albeit the figure seems colossal, compared to the population of the country the figure is modest. India has a total of 568 districts in which these employees serve. This figure only accounted for an estimated 1.6% of the population. Furthermore, compared to the workforce at the time i.e. 496 million, the public sector accounted for 3.73% of the employed population.

What is interesting about the Indian public sector is that a bulk of their public sector employees are employed in the states governments and only a meagre 2.05 million are employed at the local government level. This is interesting as local governments serve as an interface to most common citizens. The public sector wage bill in India constituted 11% of the GDP in 2012.

The wage determination of public sector employees in India is quite different from the traditional approaches of collective bargaining and three year wage agreements that are prevalent in the other two countries stated in this paper. Public sector wages in India are determined by the Pay Commission. In addition, the review of salaries in the Indian public sector occurs once in every ten years. The Pay Commission's recommended salary increases are supplemented by the half-yearly and annual increases linked to prices.

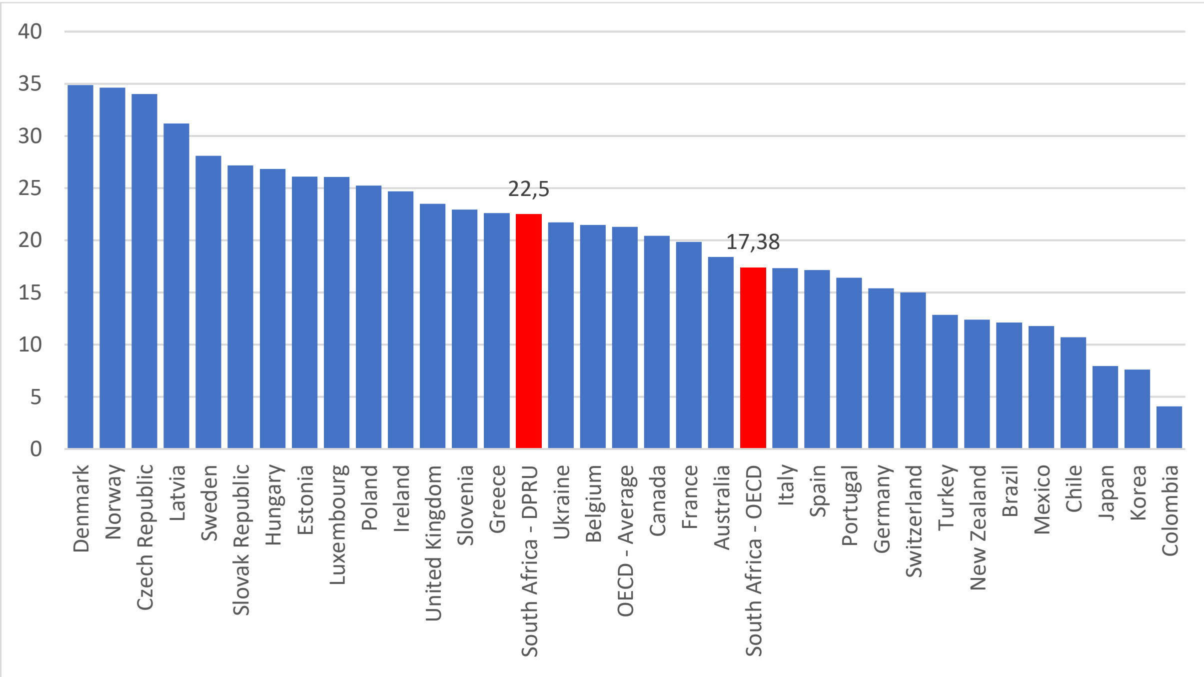
However, reforms to this system are being considered with the 7th Pay Commission of India recommending that public sector employees' salaries be reviewed annually instead of the ten year cycle currently employed through the Pay Commission. This recommendation was made with specific reference to central government employees.

In 2016, the 7th Pay Commission recommended a 14.29% increase in salaries and pensions for the estimated 10 million central government employees. The recommended pay rise for 2016 was relatively smaller than that of the 6th Pay Commission which recommended an increase of about 40% in 2008. Similarly, the 3rd Pay Commission for Central Public Sector Enterprises (CPSEs) gave a 15% salary hike for public sector companies' employees. Government employees, on average earn more than private sector employees, bar in a few occupations including medical doctors and university professors. The government has however conceded that these increases are not sustainable as they put a strain on the government budget. These increases are also a risk to the country's inflation targets as the country's economic performance is largely underpinned by consumer spending.

The economic conditions of the three countries discussed above are relatively similar albeit India has experienced a favourable prolonged period of economic growth. South Africa employs less number of people in the public sector but has relatively the same percentage of public servants as part of the total employed population with Brazil. More significantly, from the three case studies, South Africa has the smallest economy, but has the highest ration of public sector wages to GDP ratio. Moreover, just like it is the case with Brazil and India, South Africa's public sector wages are higher than those in the private sector. South Africa's public sector wages are almost twice as high as those in the private sector.

The OECD ranking on the size of the public service as a share of total employment, ranks South Africa 21st of 33 countries examined, at 17,4% of total employment, as can be seen in Figure 8 below. These figures are, however, disputed, with UCT's Development Policy Research Unit estimating public sector employment as being 22,5% of total employment, which would place South Africa 15th in the same rankings.[ii] A simple calculation using Treasury PERSAL payroll estimates and StatsSA's Quarterly Labour Force Survey produces a much lower estimate, with the public sector accounting for 8% of total employment, but this is likely because PERSAL data does not include mass employment through initiatives like the Expanded Public Works programme. Despite the different estimates, all indicators seem to suggest the size of South Africa's public service is not substantially above the norm.

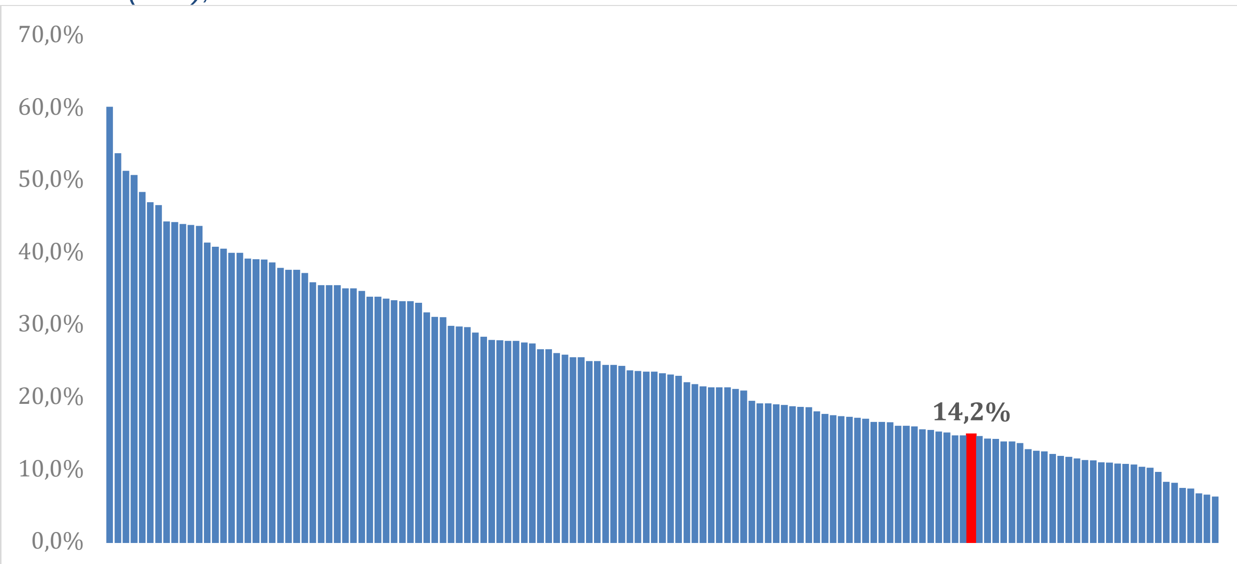
Figure 8: Public sector employment as a share of total employment, 2013



Source: OECD, Government at a glance dataset, 2015; and Bhorat, et al, 2016

The World Bank's ranking of public sector compensation as a percentage of total spending places South Africa 108th out of 141 countries, with compensation accounting for 14,1% of expenses, as can be seen in Figure9 below. In the same rankings, Germany has the lowest share (5,8%) and Iraq having the highest (59,6%). However, this is likely inaccurate, as the data seems to only account for spending on public servants in the national budget, and does not seem to include public servants in the provincial or municipal governments.

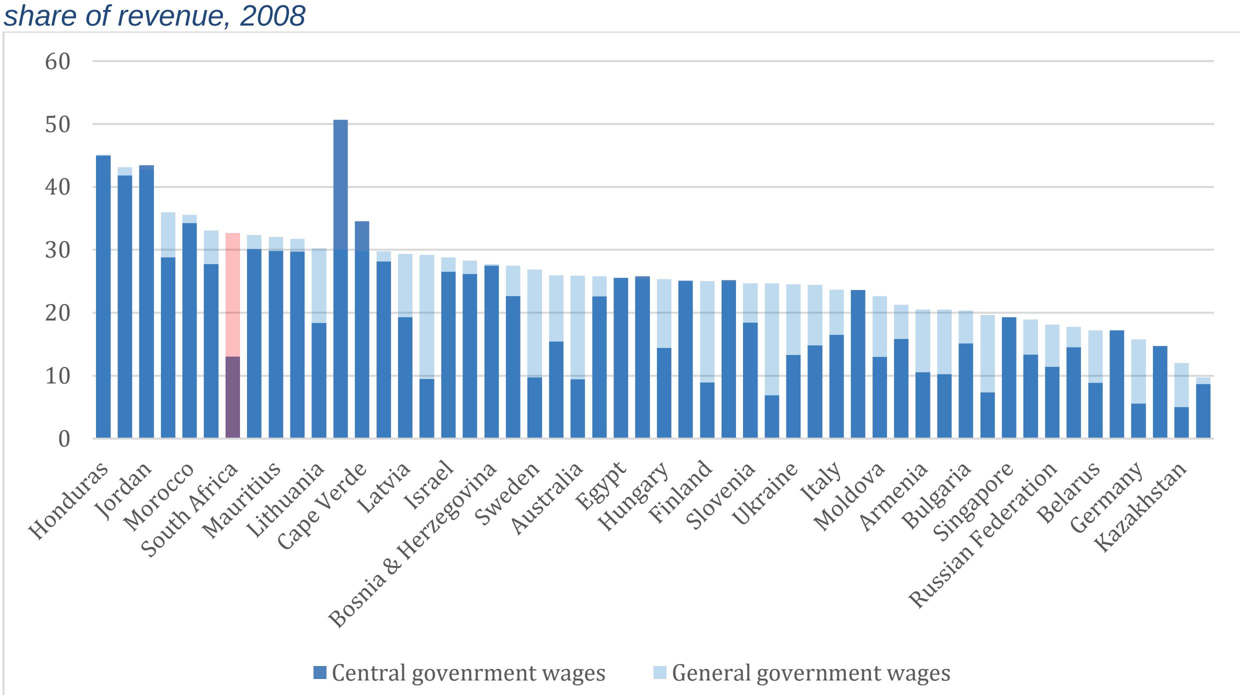
Figure 9: Compensation as a share of public sector expenditure, South Africa (red) vs other countries (blue), 2015



Source: World Bank, World Development Indicators

Older data, which considers both general government wages and central government wages, ranks South Africa much higher, with the 12th highest general government wage spending as a share of government revenue, out of a total of 86 countries. As can be seen in Figure 10, South African general government wages are much large than central government, highlighting the role that multiple levels of government plays in expanding South Africa's wage bill.

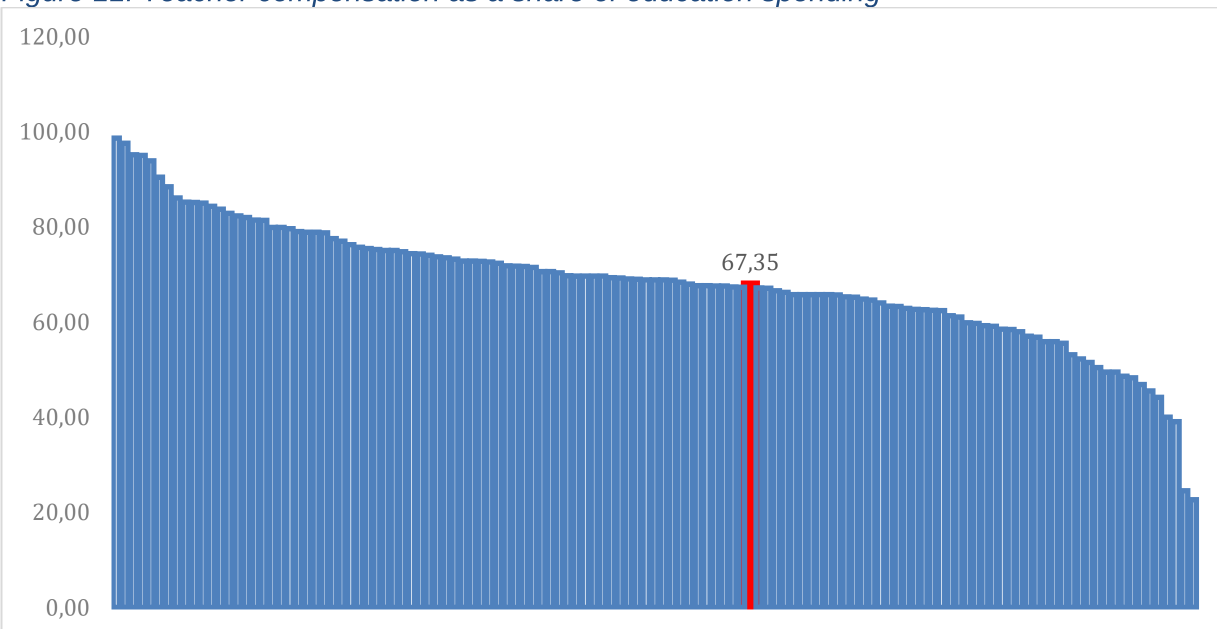
Figure 10: Central government wages as a share of revenue vs general government wages as a share of revenue, 2008



Source: Wage Bill and Pay Compression. World Bank Group

Education is the largest segment of public sector compensation spending that is not included in the national budget. Teacher compensation as a share of expenditure ranks 75th out of 125 countries compared by World Bank data, as can be seen in Figure 11

Figure 11: Teacher compensation as a share of education spending



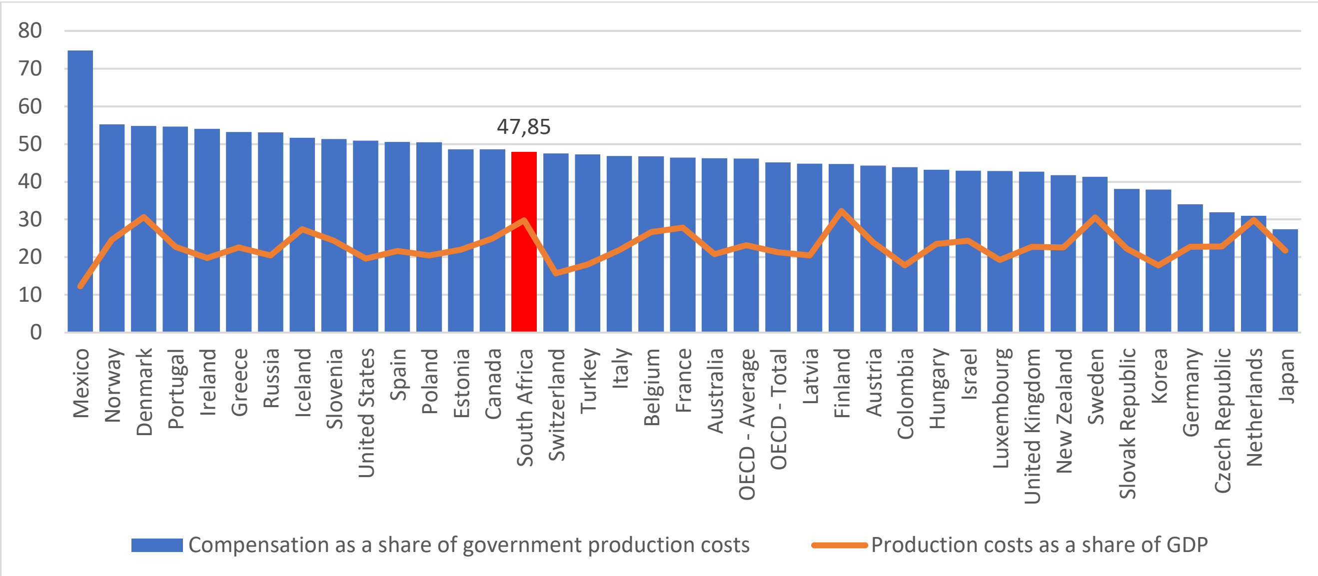
Source: World Bank, World Development Indicators

Simple comparisons of wage data across countries can sometimes be misleading – for the reasons discussed in the 'interpreting wage data' section above. One way around these problems is to consider government production costs, which refers to spending on both core government costs and outsourcing to the private sector, and shows the total amount of government spending on compensation, good and services, and other essential elements of doing the business of government.

As can be seen in Figure 12, South Africa is estimated to spend 47,85% of production costs on compensation of employees, the 15th highest proportion out of 37 countries assessed by the OECD, and slightly higher than the OECD estimate of 46,15%. This indicates that South Africa's general compensation expenditure is roughly on par with economically developed countries.

However, as a percentage of GDP, South Africa's spending on government production cost compensation ranks third highest in the world, behind only Denmark and Finland.

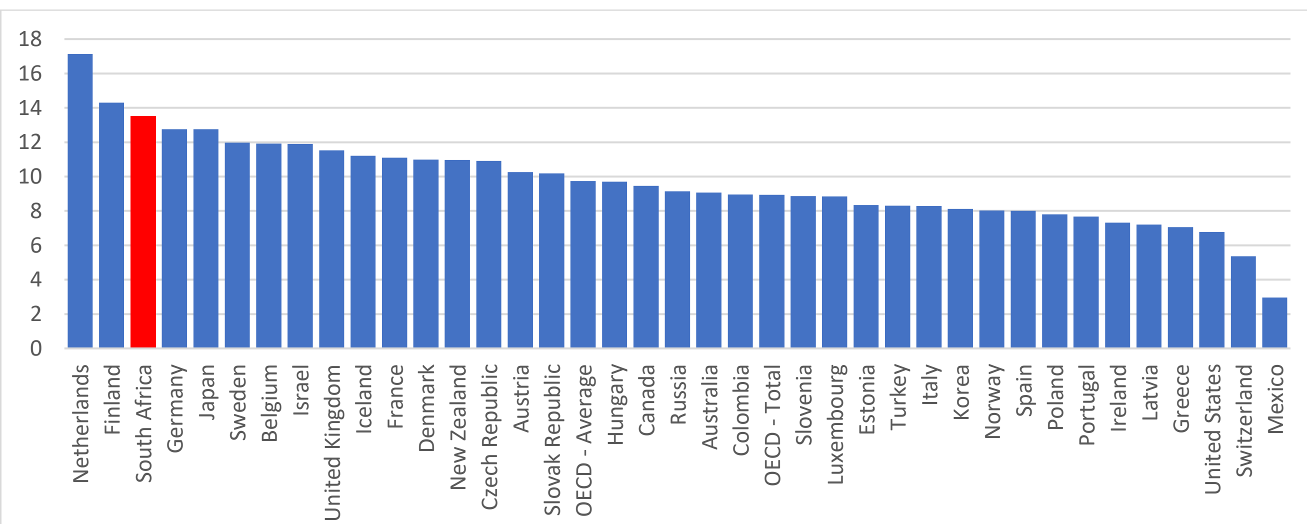
Figure 12: Compensation as a share of government production costs, 2013 (or most recently available data)



Source: OECD, Government at a glance dataset, 2015

The high share of total production costs spent on compensation is in part due to very high levels of outsourcing. South Africa ranks 3rd out of 37 countries in a ranking of the share of government expenditure spent on outsourcing, as can be seen in Figure 13 below. This is a very important consideration when evaluating South Africa's ranking in tables of spending on compensation. South Africa appears to spend a substantial amount on wages, while also employing external consultants for work. This seems to indicate inefficient spending, with permanently employed public servants not being inadequately empowered. Reductions in outsourcing, which can be achieved by combatting the underlying causes of this outsourcing, could offer space to expand public sector pay and employment without burdening the budget,

Figure 13: Government outsourcing expenses as a share of GDP

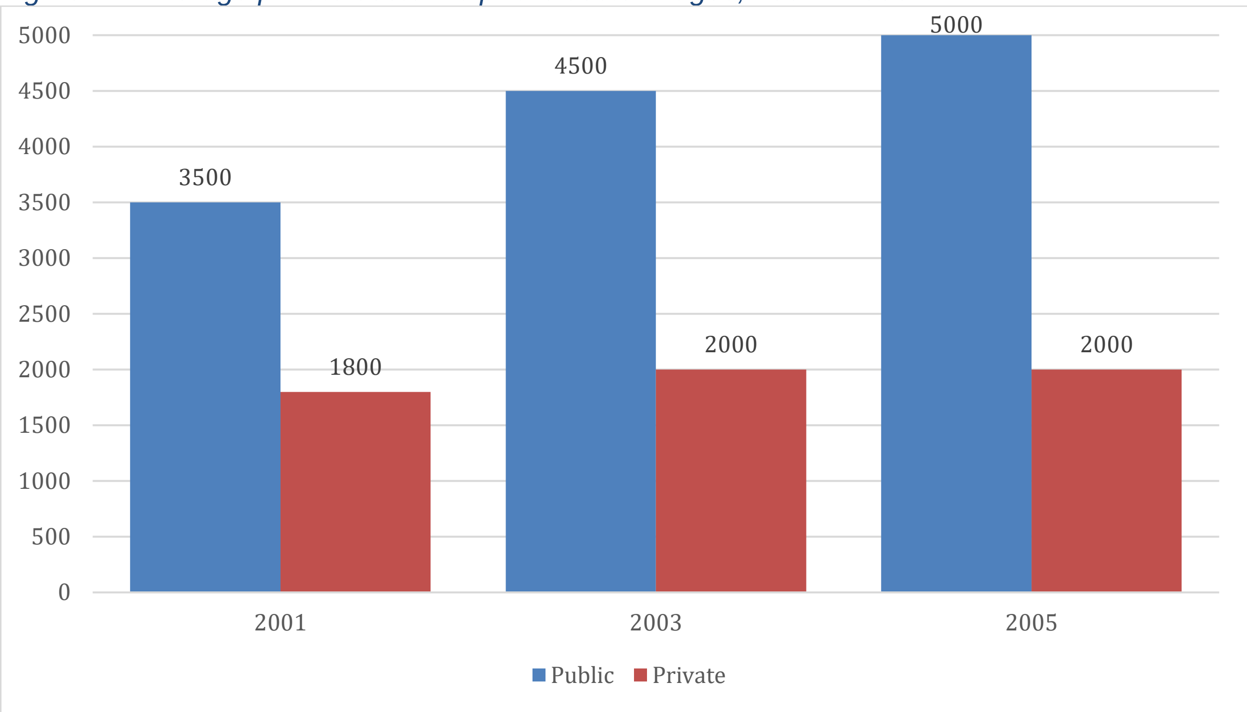


Source: OECD, Government at a glance dataset, 2015

Comparative public and private sector data

While international benchmarking is important, comparing public sector data to the domestic private sector is also useful. A relatively older study, by the Reserve Bank, indicated that the private sector pays substantially worse than the public sector, as can be seen in Figure 14.

Figure 14: Average private sector vs public sector wages, 2001 - 2005



Source: Reserve Bank, 2006

Another study found that among black formal sector employees, public sector workers earn 30% higher than their private sector colleagues, and that employment in the public sector thus plays an important role in building the black middle class.[iii]

This pay disparity is largely driven by three factors. First is that lower-earning workers in the public sector tend to earn better than their colleagues in the private sector, while more high-skilled workers tend to earn more in the private sector. Second is that wage increases seem to grow more consistently in the public sector than in the private. Third is due to greater transformation in the public sector, which means more equitable pay for non-white people, women, and people with disabilities.[iv]

Implications for public sector negotiations

The data on public sector compensation is mixed and complex, and it is often difficult to draw direct connections between the story in the numbers and the demands of negotiations. This is particularly true during the period of transition currently underway in South Africa, where the structure of both government and the budget is likely to change substantially in the coming years. Unions' obligations are to advance the interests of their members, but in the current context, this means balancing the need to protect and advance compensation, while assuring these advances are fiscally sustainable and avoid job cuts in the public service.

Generalisations about pay in the public sector are generally misleading, because the public service is incredibly diverse. Professional civil servants are not overpaid, either by international standards or compared to the private sector. Similarly, civil servants employed by the national government do not account for a particularly large portion of spending. It is, however, true that other functions of government are a major draw on resources. Mass employment professions – such as teachers, healthcare professionals and the police – are the largest contributors to the government wage bill.

However, all three have seen relatively slow wage increases in recent years, with average real compensation growth between 2009/10 and 2016/17 of just above 2% for all three groups. These mass employment groups also play an absolutely vital social role – both in the contribution they make to societal and economic development, and in creating decent job opportunities for people from poorer backgrounds – and therefore are in need of protection. While it is true that lower paid civil servants make more than their comparators in the private sector, this is more an indictment of poor pay in the private sector than of excessive pay in the public sector.

As appealing as the narrative of an overpaid civil service may be to some groups, there are no clear examples of excessive pay that make a compelling case. The large share of spending on public servants in South Africa reflects the need for a large government in the context of a society that requires substantial support to address a legacy of deprivation.

In reality, complaints of excessive pay in the public sector generally stem from discontent with the performance of the public sector. The public understandably demands 'bang-for-their-buck', with pay to public servants returning real progress. In a context of a crisis in service delivery, and deep crises in education, healthcare and other essential services, pay increases can be interpreted as rewarding failure – even when civil servants do not have control over the government structure in which they work.

The performance of government is an essential consideration for public sector pay, and should be a priority for unions. Strengthening the internal capacity of government can improve performance, and thus expand the willingness of the public to pay for services; while also saving costs, by reducing waste and the need for outsourcing of tasks. Negotiators need to be clear on the underlying causes of the growth in the deficit, which is not caused by civil servant's compensation, but by a government structure that has failed to adequately empower civil servants to effectively deliver.

While the data indicates that South African public sector pay is high, but not completely out of proportion internationally, this does not change the difficult fiscal situation facing the country, or the short-term decisions that will need to be made. While compensation needs to be protected, this is a difficult time for ambitions beyond that. The South African government has neither the fiscal space nor the structural efficiency to absorb an increase in public sector wages that are significantly above inflation. While some progress may still be possible, the limiting factors of the governance environment are very real, and will need to be managed. Real progress on the conditions of work for civil servants can be made in the coming years, but unions will need to be strategic about when to push hard on increases and compensation, and when to focus instead on advocating for policies that build a government capable of supporting good pay for workers. The current moment may call for a focus on the latter.

References

[i] National Treasury, Mid-term budget policy statement, Annex B: Compensation data
[ii] Bhorat, H., et al. 2016. "Demographic, employment, and wage trends in South Africa". Brookings Africa Growth Initiative
[iii] Jacobs, M. 2017. "Public-private sector wage differentials and household poverty among Black South Africans"
[iv] Gunderson, 2000, as quoted in Jacobs, 2017