

# Management of the Public Service wage bill

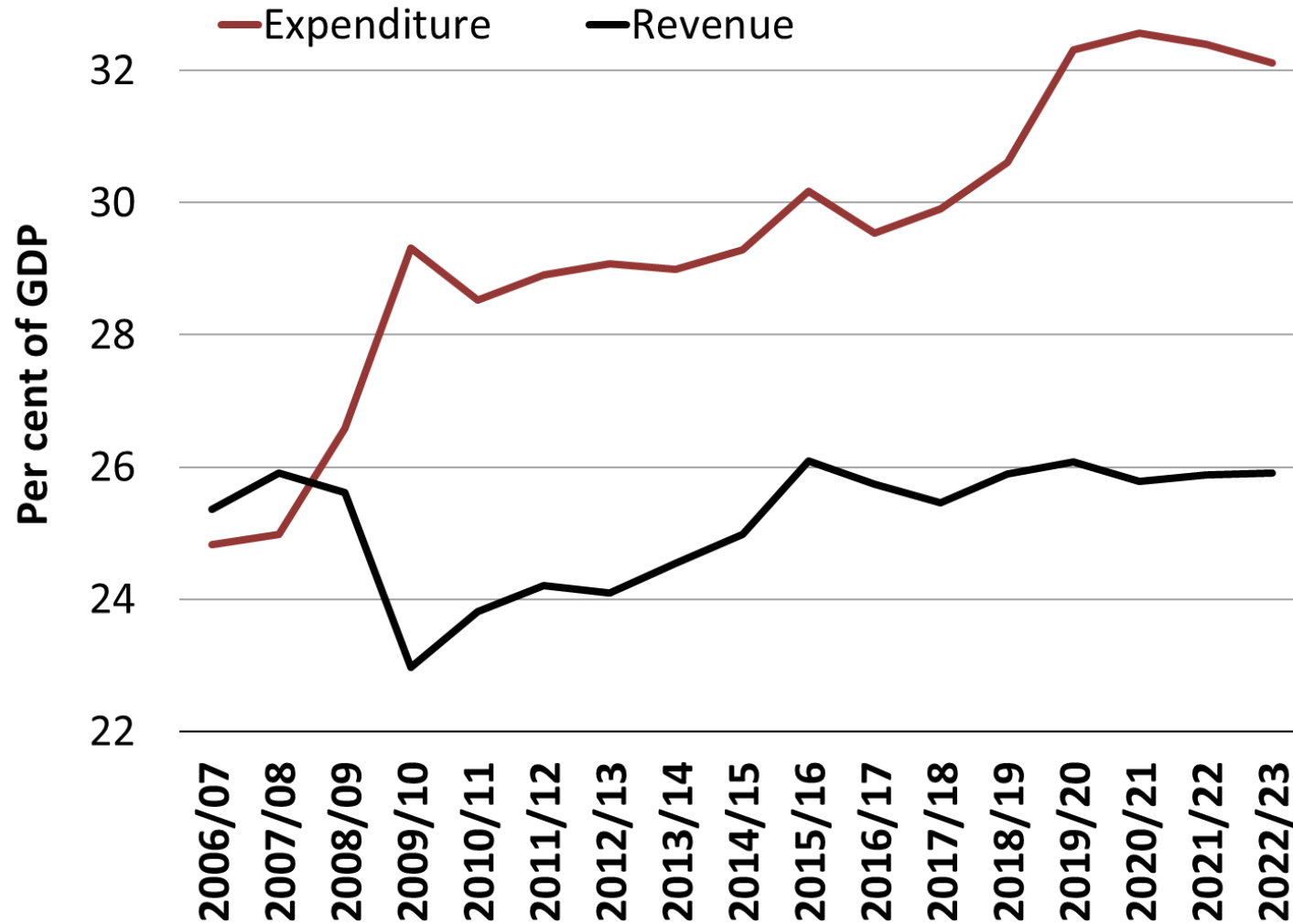
Presentation to the PSCBC

25 February 2020

# Fiscal situation

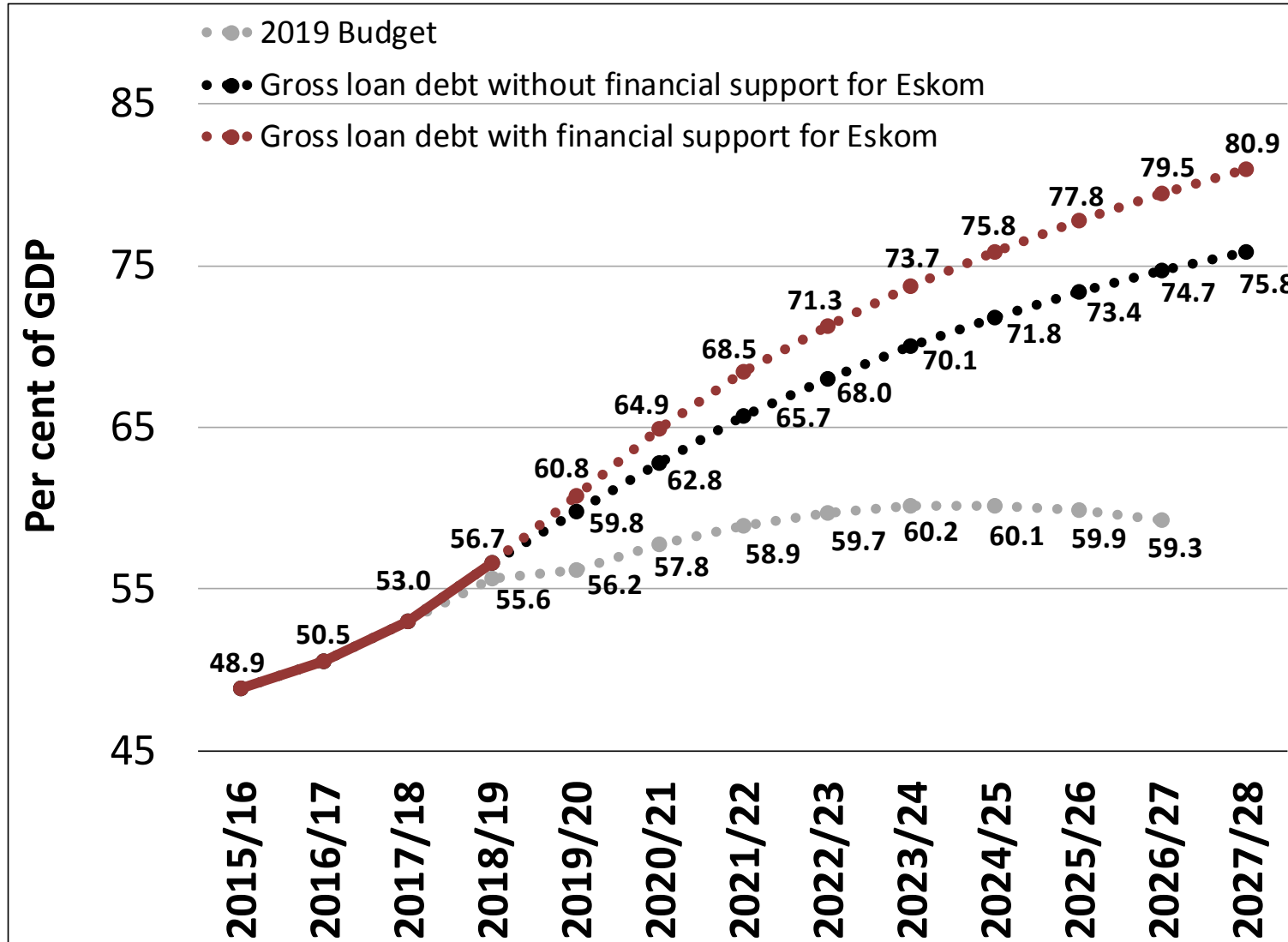
- The size of government has grown over the past 25 years. As a share of GDP, government spending is at its highest level since the start of democracy
- As things stand, spending is well above what the economy can afford. To make up the difference between spending and revenue, government is borrowing large amounts of money on an ongoing basis.
- This year, government will be borrowing in excess of R375 billion, or 6.8 per cent of GDP, to maintain current spending levels. This rate of borrowing has put South Africa's debt-to-GDP outlook on an explosive path.
- To ensure a sustainable outlook, government debt will have to stabilise as a share of GDP. This will require a combination of measures to improve the quality of expenditure and grow the economy.

# Revenue vs expenditure



- Between 2001/02 and 2010/11, spending (excluding interest payments) grew by 15 per cent per year on average
- This mainly reflected wage bill growth and the expansion of the social grants system
- Spending is far above the revenue that the economy generates

# MTBPS 2019 debt projection shows explosive outlook



- To ensure a sustainable outlook, government debt will have to stabilise as a share of GDP
- This will require a combination measures to improve the quality of expenditure and grow the economy

# 2019 MTBPS main budget fiscal framework

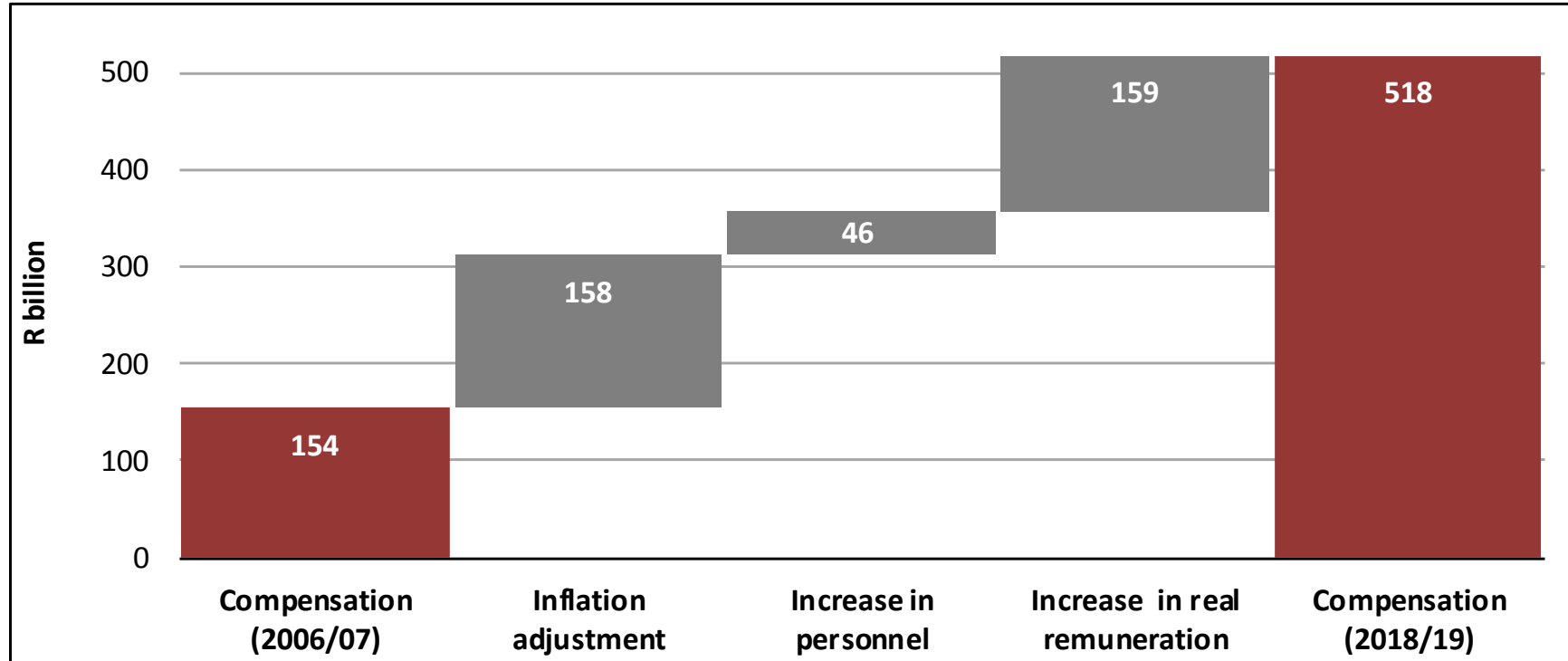
R million / per cent	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
		Outcomes		Estimate		Projections	
Revenue	1 137 904	1 196 371	1 274 738	1 359 084	1 425 905	1 525 600	1 627 884
<i>Per cent of GDP</i>	25.7%	25.5%	25.9%	26.1%	25.8%	25.9%	25.9%
Expenditure	1 305 486	1 404 988	1 506 729	1 683 352	1 800 642	1 911 222	2 018 495
	29.5%	29.9%	30.6%	32.3%	32.6%	32.4%	32.1%
Non-interest expenditure	1 158 990	1 242 344	1 324 880	1 479 622	1 567 884	1 646 653	1 719 363
<i>Percent of GDP</i>	26.2%	26.4%	26.9%	28.4%	28.4%	27.9%	27.4%
<i>Real growth</i>		2.4%	1.9%	6.9%	1.1%	0.2%	-0.3%
Debt service costs	146 497	162 645	181 849	203 731	232 758	264 569	299 132
<i>Per cent of GDP</i>	3.3%	3.5%	3.7%	3.9%	4.2%	4.5%	4.8%
Budget balance	-167 582	-208 617	-231 991	-324 268	-374 738	-385 622	-390 612
	-3.8%	-4.4%	-4.7%	-6.2%	-6.8%	-6.5%	-6.2%
Primary balance	-21 085	-45 972	-50 142	-120 537	-141 980	-121 054	-91 479
	-0.5%	-1.0%	-1.0%	-2.3%	-2.6%	-2.1%	-1.5%

## Main budget balances excluding Eskom financial support

R million / per cent	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
		Outcomes		Estimate		Projections	
Budget balance	-167 582	-208 617	-231 991	-274 048	-312 445	-342 041	-353 802
	-3.8%	-4.4%	-4.7%	-5.3%	-5.6%	-5.8%	-5.6%
Primary balance	-21 085	-45 972	-50 142	-71 537	-85 980	-88 054	-68 479
	-0.5%	-1.0%	-1.0%	-1.4%	-1.6%	-1.5%	-1.1%

# Drivers of compensation growth

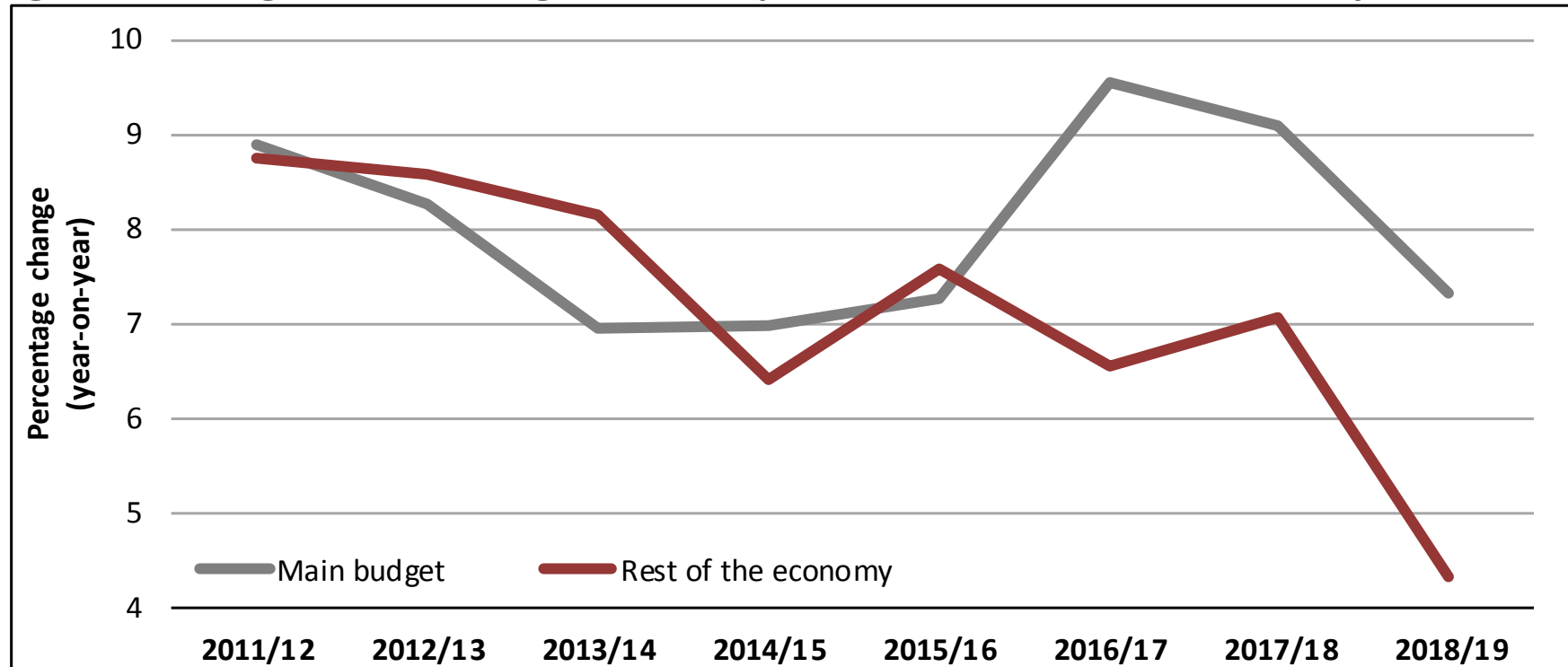
Figure B.1 The drivers of increased compensation spending



Source: National Treasury (PERSAL data)

# Public and private remuneration growth

Figure B.4 Average remuneration growth in the public service and rest of the economy



Source: Statistics South Africa

# Average salary by grade

**Table B.2 Average salary by grade across government<sup>1</sup>**

Grade	2006/07 (nominal)	2006/07 (in 2018 rand)	2018/19	Compound annual growth rate (nominal)	Compound annual growth rate (real)
1	R44 253	R89 705	R130 379	9.4%	3.2%
2	R58 812	R119 217	R159 827	8.7%	2.5%
3	R69 747	R141 385	R194 845	8.9%	2.7%
4	R83 124	R168 501	R237 818	9.2%	2.9%
5	R101 200	R205 143	R258 312	8.1%	1.9%
6	R120 002	R243 256	R317 240	8.4%	2.2%
7	R151 147	R306 389	R375 960	7.9%	1.7%
8	R181 134	R367 177	R448 039	7.8%	1.7%
9	R221 102	R448 197	R539 935	7.7%	1.6%
10	R280 757	R569 124	R687 120	7.7%	1.6%
11	R346 959	R703 320	R887 808	8.1%	2.0%
12	R440 097	R892 121	R964 954	6.8%	0.7%
13	R548 380	R1 111 620	R1 212 238	6.8%	0.7%
14	R642 820	R1 303 061	R1 442 967	7.0%	0.9%
15	R792 154	R1 605 776	R1 765 435	6.9%	0.8%
16	R992 563	R2 012 025	R2 169 585	6.7%	0.6%

- Senior and middle managers at national and provincial level amount to around 28 000 people, of a total public service of approximately 1.2 million civil servants

1. Excludes SANDF

Source: National Treasury (PERSAL data)



# The 2018 wage agreement and its costs

- Key provisions of the wage agreement are as follows:
  - A cost-of-living adjustment for employees on salary levels 1 to 12 and employees on Occupation Specific Dispensation (OSD) as follows -

<b>Cost-of-Living Adjustment</b>	<b>2018/19</b>	<b>2019/20<sup>1</sup></b>	<b>2020/21<sup>1</sup></b>
<b>Projected CPI inflation</b>	<b>5.5%</b>	<b>5.3%</b>	<b>5.5%</b>
Salary Levels 1-7	7%	CPI + 1.0%	CPI + 1.0%
Salary Levels 8-10	6.5%	CPI + 0.5%	CPI + 0.5%
Salary Levels 11-12	6%	CPI	CPI

1. CPI inflation projections provided by the National Treasury.

- Equalisation of pay progression across the public service at 1.5% per annum to be implemented incrementally over the period covered by the wage agreement. This affects mostly the Police and Educators
- Extension of housing allowance to qualifying spouses of public servants to be implemented incrementally over the period covered by the wage agreement

# The 2018 wage agreement and its costs

- Costs of the wage agreement are as follows:

R million	2018/19	2019/20	2020/21	2018 MTEF
Cost-of-living adjustment	38 777	77 225	119 661	235 663
Equalisation of progression	395	1 326	2 636	4 357
Extension of housing allowance	407	1 097	1 200	2 704
<b>Total</b>	<b>39 579</b>	<b>79 648</b>	<b>123 497</b>	<b>242 724</b>

1. Figures presented are cumulative

- Cost implications of the 2018 wage agreement in relation to compensation budget envelope are detailed in the table below resulting in estimates shortfall of R30.2bn over the 2018 MTEF:

R million	2018/19	2019/20	2020/21	2018 MTEF
<b>Non-SMS Budget Envelope</b>	<b>32 594</b>	<b>69 353</b>	<b>110 581</b>	<b>212 527</b>
<i>Less</i>				
<b>Wage agreement cost</b>	<b>39 579</b>	<b>79 648</b>	<b>123 497</b>	<b>242 724</b>
Cost of living adjustment	38 777	77 225	119 661	235 663
Equalisation of progression	395	1326	2636	4357
Extension of housing allowance	407	1097	1200	2704
<b>Estimated Wage Agreement (Shortfall)/Surplus</b>	<b>(6 985)</b>	<b>(10 295)</b>	<b>(12 916)</b>	<b>(30 197)</b>

# Impact of wage agreement

- In 2018 we settled with a deficit of R30.2 billion with the proviso that the employer will implement cost containment measures in the form of:
  - Reduction in performance bonuses
  - Early retirement without penalties
- These measures did not yield any significant savings
- The State should achieve expenditure reductions of R150-R170 billion over the MTEF

# Cost drivers in the public service

- It is obvious that the State is facing dire financial crisis in the immediate and medium-term, that could have long-term repercussions if not well-managed
- Amongst others, areas of consideration are:
  - Litigation
  - ICT
  - Cost of office accommodation
  - Corruption and fraud
  - Use of consultants
  - Irregular, fruitless and wasteful expenditure
  - Reform the procurement and supply chain management systems
  - Public service wage bill
- The Executive is dealing with this matter at the level of Cabinet
- However, savings from the above may not be realised in the short- to medium term

# Inflation outcomes

	2018/19	2019/20	2020/21	
Actual CPI	4,6%	4,2%		<b>Average nominal</b>
2018/19 Projected CPI	5,5%	5,3%	5,5%	5,4%
2019/20 Projected CPI	4,9%	5,2%	5,5%	5,2%
2020/21 Projected CPI		4,2%	4,4%	4,3%

<b>COLA</b>	2018/19	2019/20	2020/21
Salary Levels 1-7	7,0%	6,2%	5,4%
Salary Levels 8-10	6,5%	5,7%	4,9%
Salary Levels 11-12	6,0%	5,2%	4,4%

<b>REAL INCREASE</b>	2018/19	2019/20	2020/21	<b>Average real</b>
Salary Levels 1-7	2,4%	2,0%	1,0%	1,8%
Salary Levels 8-10	1,9%	1,5%	0,5%	1,3%
Salary Levels 11-12	1,4%	1,0%	0,0%	0,8%

# Review of PSCBC Resolution 1 of 2018

- The State cannot afford the last leg of the 2018 wage agreement
- The State is of the view that a review of Clause 3.3 of PSCBC Resolution 1 of 2018, has potential to stabilise public finances and help reduce the debt-to-GDP ratio
- The State hereby requests a review of Clause 3.3 of PSCBC Resolution 1 of 2018

END