CHAPTER 4

Managing The Provincial Wage Bill To Contain Fiscal Stress And Build A Capable State

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4.1 Introduction

In the past,[45] the Commission has highlighted the risk to fiscal sustainability posed by the potentially negative impact on service delivery of the rapid rise in the public sector wage bill relative to expenditure on complementary inputs required to deliver services effectively. The public sector wage bill has consistently constituted the largest component of the government's current expenditure. Reasons for this are varied: annual cost of living adjustments coupled with promotion and job regrading; the increase in employee head-count; the introduction of the occupation-specific dispensation (OSD[46]); poor internal controls (poor management of the antiquated personnel salary (PERSAL) system); a lack of critical skills resulting in head-hunting, which is often expensive; appointments made without proper planning and budgeting, and poor organisational design (strategic plans not aligned with organogram); policies initiated at the national level with insufficient regard to the enormous financial implications for provincial administrators; the equalisation of service conditions (salary increases for low-income earners); and the influence of trade unions on the outcome of wage-bargaining agreements, coupled with weak management.

On the one hand, provincial governments are responsible for remunerating their employees for conditions of service, which are centrally determined through collective bargaining and over which provinces have no control. On the other hand, in contrast to collective bargaining that is centralised within the national sphere, budgeting for personnel costs is decentralised to provincial departments as part of their allocations received through the provincial equitable share (PES). This disjuncture – between the setting of wage levels at the national level and the budgeting for personnel costs at the provincial level – is sometimes perceived as encouraging fiscal irresponsibility on the part of provinces. However, for provinces, the PES is also considered inadequate to cover the full carry-through cost of remuneration decisions taken at the national level. Furthermore, national initiatives such as OSD may be implemented in widely varying ways across provinces, contributing to personnel spending pressures.

A key determinant of progress in managing personnel expenditure is the ability to achieve an efficient mix of spending on personnel, capital, and goods and services (National Treasury, 2012). Without this balance, service delivery will be compromised – for example, there could be teachers

[45] For example, in its Submission on the 2010 Medium Term Budget Policy Statement (FFC, 2010), the Commission raised concerns about the rising personnel budgets, and indicated the risk of creating perverse incentives by rewarding provinces that fail to contain their personnel expenditures through increasing their budget allocations.

[46] The OSD emanated from the resolution taken in 2007 by the Public Service Coordinating Bargaining Council, introducing a new dispensation of revised salary structures that are unique to specific skilled occupations such as educators, health professionals and certain categories of professionals. The aim of the OSD is to improve the government's ability to attract and retain skilled employees through improved remuneration.

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but no learner support materials, medical personnel but no medicines, etc. Furthermore, even within personnel expenditure an appropriate skills mix is needed – a balance between core frontline delivery staff and support staff – as well as appropriate allocation of posts among head offices, district/regional offices, and delivery institutions (such as clinics and schools).

This chapter examines the underlying drivers of the growth of the provincial wage bill in relation to increases in staff numbers, vacancy rates versus scarce skills, value for money (commensurate with productivity), and complementary inputs (such as textbooks or medicines).

4.1.1 Problem Statement

Provincial governments employ a large majority of public sector employees who are funded directly from the PES. In 2011/12 alone, the PES was adjusted upwards by R3.2 billion to cover the higher-than-budgeted wage agreements. For the 2012 Medium Term Expenditure Framework (MTEF), provinces have received about R3.3 billion more, of which 70 per cent is earmarked for the provincial wage bill, leaving less than R1 billion to deal with other expenditure pressures (FFC, 2012). Despite additions to the baseline to accommodate provincial wage bill increases, a province-by-province analysis, from the section 32 reports in terms of Public Finance Management Act (PFMA), indicates that provinces will probably still overspend on personnel.

Increases in the provincial wage bill are a major cause for concern as they tend to be a first charge on budgets, which could seriously compromise service delivery (FFC, 2012). These personnel budget pressures coexist with huge public sector vacancy rates, a generally inappropriate mix of frontline versus back office staff and low productivity concerns. This suggests that expanding the provincial public sector wage bill may further divert resources from other critical expenditure items, to the detriment of service delivery. Uncontrolled staff costs and inappropriate personnel mix may crowd out other necessary expenditure items, such as complementary inputs, thereby adversely affecting productivity and the quality and impact of social public spending. That by implication is both fiscally and politically unsustainable.

This raises questions about what lies behind the observed increases in the wage bill, including:

- Are these increases because of increases in staff establishments and/or employment head-count?
- Are these increases a result of increases in the existing vacancy rates or of an inappropriate mix of skills (for example between skilled and unskilled personnel and between frontline and back office personnel)?
- Are the increases in personnel spending commensurate with increases in productivity?

4.1.2 Objectives of the study

The specific objectives of the study were to:

- Evaluate the increases in the public sector wage bill as a result of staff establishment.
- Analyse the share of administration versus professional staff in order to understand the personnel mix.
- Evaluate the increases in the public sector wage bill and the productivity of the personnel employed.

- Make recommendations on control measures that need to be in place to ensure contained and productive personnel expenditure.

4.2 Legislative, Policy and Budgeting Arrangements Influencing the Public Sector Wage Bill

4.2.1 Legislation and Policy

In line with constitutional principles, certain legislation and policies govern matters relating to the public service administration. In addition to labour legislation regulating the private sector,[47] legislative frameworks specific to the civil service include the Public Service Act (South Africa, 1994) and the Public Service Amendment Act (South Africa, 2007). The latter provides mainly for the organisation and administration of the public service, and clearly states the responsibilities of the Minister of Public Service and Administration. These include establishing norms and standards related to public service functions,[48] which are all subject to the Labour Relations Act and any collective agreement. The Public Service Regulations (South Africa, 2001) regulate in detail persons employed and institutions governed in terms of the Public Service Act. They stipulate that, when determining a public service employee's salary, available funding, the employee's performance, recruitment and retention of appropriate skills, collective agreements and job evaluations need to be taken into account. The regulations also prescribe a time frame for filling funded vacant posts: once advertised, funded posts must be filled within a year. The Public Service Act does not explicitly contain any consequences for non-compliance, apart from stating that, if a department fails to comply with the regulations, reasons for non-compliance need to be recorded in writing.

Further, recognising that provincial departments are legal entities in their own right, the Public Service Act and the Public Service Amendment Act transferred the executing authority to ministers (in the case of national departments) and to Members of Executive Councils (MECs) for provincial departments. However, concerns were raised when the Public Service Act was passed: (1) the Act gives considerable personnel powers to ministers and MECs, which could lead to circumstances where senior officials, mindful of their job security, pander to the needs of their political superiors and compromise, at the expense of rational policy decisions; (2) the powers of the provincial director-general are reduced (Cameron and Tapscott, 2000); (3) entrusting ministers and MECs with personnel appointments may create an incentive for purging existing officials and putting in place a new management team every time a new Minister or MEC takes office. This disruption in the political–administrative interface would have a very negative impact on a department's ability to deliver services.

Besides these arguments, Fifield (2008) notes the functions of the Minister of Public Service and Administration as stated above and those of the executive authorities (MECs, premiers and ministers), which include organisational structure, appointments and promotions. With the ap-

[47] Labour Relations Act (1995), Basic Conditions of Employment Act (1997), including Amended Basic Conditions of Employment Act (2004).
[48] Organisational structures, conditions of service, public sector reform and other related matters.

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propriate delegations from their executive authority, heads of departments can also establish departmental policy on human resources management.

The regulatory framework for human resource management laid out in the Public Service Regulations should be read with the Public Finance Management Act of 1999 (PFMA) and its regulations (South Africa, 1999). These require the Accounting Officer to establish a system of controls to ensure that any human resource decisions with financial implications are affordable in terms of the department's budget. Enforcing this regulatory framework is crucial for those provincial departments that spend beyond their established approved employment structures or funded vacancies, to ensure that spending on employees' compensation is consistent with approved budget plans. This is because these expenses are mainly driven by the province's own decisions. In line with the legislation currently in place (e.g. PFMA), accounting officers must be held accountable where these powers have been delegated to them.

Tensions with the PFMA are created when executing authorities have not delegated human resource functions to their accounting officers. Under the PFMA, accounting officers are held accountable for personnel spending over which they have little control. Accordingly, the National Development Plan (NDP) has proposed that the Public Service Act be amended to locate human resource management with the accounting officer (departmental head), which would both resolve this tension and expedite the filling of vacant posts by streamlining the appointment process (NPC, 2012).

4.2.2 Public Sector Wage Bill and Financing

South Africa has not been immune to public sector pay and employment pressures. In fact, as far back as 1995 South Africa was among the world's biggest spenders on public service salaries, the second highest of the 17 countries that fall within the World Bank's middle-income category (Cameron and Tapscott, 2000). Since then, personnel expenditure as a proportion of total budget has increased. The challenge facing South Africa is not the size of the public service as such but rather the affordability of public sector employment (Cameron and Tapscott, 2000). The Presidential Review Commission noted that the salary issue is often confusing: on the one hand departments constantly refer to the failure to attract high calibre skills due to poor salaries, while on the other hand salaries are growing constantly (PSC, 1998).

The public sector wage bill has escalated over the past ten years, accelerating above-average inflation (Pillay, 2010). If this trend continues, the wage bill may potentially crowd out other expenditure items also needed to deliver public services. OSD's introduction is a reason cited for this trend. Higher-than-budgeted wages could have negative effects on the fiscus because of the carry-through effects over the MTEF period that may become unsustainable (Pillay, 2010). This has the potential to undermine the government's ability to fulfil its mandate of service delivery provision. To address this, some of the measures that can be explored include: the need to link salary negotiations with wage growth and productivity; the impact of the rising wage bill; and the need for government and trade unions to discuss putting in place performance management and rewards systems, which aim to improve the efficiency, effectiveness and quality of the public services (Pillay, 2010).

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4.2.3 Public Sector Wage Bill and Staffing

The Organisation of Economic Cooperation and Development (OECD) considers the proportion of the labour force working for government as one indicator of how public services are delivered in a country and an important factor that determines the costs of service delivery (OECD, 2011). A large proportion of the labour force working for government could also crowd out private sector employment. Lindauer and Nunberg (1994) argue that most governments tend to expand on employment even when in fiscal crisis, for reasons that include: employment guarantees for graduates, a rapidly growing labour force, rising urban unemployment, macroeconomic crisis effects, and political pressures that are often compounded by the election of a new administration. The latter would rely on their power of appointment to reward supporters, as a form of loyalty, which often results in excessive political patronage.

In the South African context, bargaining councils have been the pillar of collective bargaining. The rise in the number of workers covered by bargaining councils was largely driven by the introduction of public sector councils: during the first decade of democracy, bargaining council coverage rose rapidly in the public sector, while the private sector saw an erosion of coverage (Bhorat et al., 2009). The expansion of the public sector wage bill is closely associated with trade unionisation: about 76 per cent of public sector workers only 24 per cent of private sector workers belong to a trade union. Furthermore, over the past decade government employment has grown, while employment in the agriculture, mining and other primary sectors has fallen (Prophet Analytics, 2012). South Africans are twice as likely to be employed in the public sector compared to 40 years ago, while more people are receiving social welfare grants than are employed (UASA, 2012).

4.2.4 Public Sector Wage Bill and Administrative Inefficiencies

The Auditor-General (AGSA, 2000) found some severely inadequate internal controls over the compensation of public servants:

- Payments were made to deceased staff members, and salary payments were not cancelled on time, resulting in overpayments.
- Payments were not cancelled timeously after the termination of service and were therefore not effected on time in the PERSAL system.
- The non-integration of the PERSAL system meant that multiple appointments could be made, allowing staff members to be appointed and paid by more than one department.
- Staff members over the age of 65 were still employed by provincial departments.
- State guarantees of staff members who had resigned were often not covered.
- Some users could enter and approve their own transactions on the PERSAL system.
- In some instances, authorisation was not required either for the creation or cancellation of posts.
- Duplicate payment systems existed for staff members with the same identity or PERSAL number.
- Controls were not in place to ensure that service terminations were processed within a reasonable time in order to prevent double payment.
- The reliability and integrity of data on the PERSAL system was questionable because of shortcomings regarding the validation of system-generated identity numbers.

The Auditor-General made recommendations on corrective measures to be taken to remedy these shortcomings to the accounting officers, National Treasury, and national and provincial departments. Subsequent reports by the Auditor-General indicate that various systems were implemented to address those shortcomings. However, the reports do not state whether actions were taken against the accounting officers and heads of departments responsible. Furthermore, an investigation into provincial departmental operations uncovered extensive administrative malpractices, poor delegation and coordination, as well as the employment of large numbers of supernumeraries and fictitious or ghost employees (Cameron and Tapscott, 2000). Another major impediment to the implementation of policies at the national level is the absence of policy analysis skills and practices, which are essential for improving performance. These findings clearly indicate that increases in the public sector wage bill are further intensified by inefficiencies in the administrative processes.

4.2.5 Public Sector Wage Bill and Productivity

Since the late 1990s, public sector wages have been a point of contention between the government and trade unions. In July 2012, for the first time, the government and trade unions reached an agreement, which stipulates in advance the annual increase (inflation rate plus one per cent) to be received by public sector workers for the years 2013–2015, thus introducing an element of stability to public wage growth. This wage settlement was a victory for the negotiation process. However, issues of sustainability cannot be ignored. Unless the one per cent increase is accompanied by a similar increase in productivity, the public sector wage bill to government expenditure ratio will deteriorate because of higher labour costs (Morton and Blair, 2012).

According to international literature, a number of productivity measures can be used, and their feasibility is often determined by the data available. The most common ones are (a) single factor productivity of labour or capital, based on value added or gross output; and (b) multi-factor productivity based on a combination of labour and capital (OECD, 2001). Public sector productivity in South Africa has not been extensively researched. Recent attempts to measure productivity by Prophet Analytics (Sapa, 2011) and especially Adcorp (2011) raised serious methodological questions regarding the measure and the approach adopted. Nevertheless, both estimations suggest that public sector productivity is significantly below private sector productivity.

Typically, a real increase in wages would be expected to be accompanied by an increase in productivity. A more productive public sector would reduce the percentage of total expenditure spent on personnel, through a slowdown in the growth of personnel numbers over time. However, over the years personnel numbers have in fact increased steadily, reaching over one million employees (National Treasury, 2013).

Despite recession in 2009 and tepid recovery in 2010, real wages in South Africa continued to increase rapidly, outpacing the growth in labour productivity (Klein, 2012). This misalignment of real wages and labour productivity reflects the outcomes of the collective bargaining framework, which not only contributes to the weak link between pay and productivity but also reduces the responsiveness of real wages to business cycle fluctuations.

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Labour laws in South Africa limit the ability of government departments to scale down employment when necessary in the short term. Technological advances and streamlining business processes (such as the computerisation of certain processes in key sectors like education and health) could enable costs to drop over the medium to long term through, for example, reallocating redundant staff to existing vacant posts elsewhere. Doherty and Gilson (2011) found that hospitals could significantly reduce waiting periods and cut overtime by simply reorganising the flow of work and organisational processes.

4.2.6 Public Sector Wage Bill and Reforms

Increases in the public sector wage bill have been a contentious issue not only in South Africa but also internationally. Sustainable government pay and employment policy reforms are needed. In the South African case, the reforms started when the PRC was formed in 1998. Its mandate was, among other things, to conduct an internal audit and review of the organisational component of each sphere of government, covering objectives, functions, staffing and financing, followed by recommendations for the operation, transformation and development of the public service, towards a culture of good governance. The review (PSC, 1998) indicated that, despite progress made, some concerns remained, including the slow pace of transformation, the lack of a clear vision for change, the lack of effective leadership, ineffective strategic management, and a lack of planning and budgeting.

The PRC concluded that, in principle, the huge number of public officials was not justified, given the resources available and the priorities that the government needs to address. Furthermore, the PRC noted that high public sector employment, especially at low skills levels, and the mechanisms for retrenching and redeploying staff make keeping within the budgetary constraints of the wage bill exceedingly difficult. It recommended rationalising departments in order to meet service delivery needs. Public service salaries are relatively competitive with the private sector in most occupations apart from technical and specialist positions (e.g. engineers, doctors and information technology personnel). The PRC's recommendations included the need to rationalise departments, so as to be able to meet service delivery needs.

In the 2013 State of Nation Address, the President announced the establishment of a new Presidential Remuneration Commission, which is tasked with investigating the conditions of service and remuneration of civil servants and make recommendations on how to achieve an efficient, accountable public service for improved service delivery. The National Planning Commission (NPC) states that the government will reform the public sector through reskilling public sector employees (so as to improve on general competency skills). Those public officials who do not fulfil their requirements or responsibilities will be relieved through labour laws currently in place. Further, according to the NPC, these public sector reforms will be governed by frameworks (quality, quantity and oversight) which are currently lacking.

Performance-oriented management, which needs to be related to performance and rewards, is a strategy used in OECD countries that implemented public administration reforms aimed at increasing efficiency and quality of service delivery (OECD, 2009). Nunberg (1994) argues that

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civil service reforms must recognise that a well-performing government sector is an important ingredient in restoring economic growth, and that a rational system of pay and employment of government employees is vital in achieving this goal.

In 2009 the United Kingdom's public sector wage bill accounted for about 281 billion pounds sterling (or nearly a third of government expenditure), and public expenditure cuts were envisaged. Bozio and Disney (2010) proposed strategies and policy options that government could follow to contain or reduce the public sector wage bill. These strategies included cutting salaries, reducing the size of the workforce, and reforming public sector pensions. However, each of these policy options had disadvantages. For instance, reducing pay levels over long periods could result in a drop in average skills levels and subsequent inefficiencies in delivering public services. Furthermore, reducing the size of the workforce tends to be very costly. Lastly, cuts to public sector pensions may be a viable option, as public pensions are more generous than in the private sector. However, reforming pensions may save costs in the long term, with the reduction in public liabilities, but will not reduce spending in the short term (Bozio and Disney, 2010). For each of these strategies, there are trade-offs, and caution needs to be exercised to ensure a balance is struck between short-term and long-term savings/costs.

4.3 Research Methodology

4.3.1 Data

Audited fiscal data for provinces were sourced from various editions of Provincial Budgets, as well as Provincial Budgets and Expenditure Reviews (www.treasury.gov.za/publications/igfr).

4.3.2 Research Methods

The research covered the following areas:

- Data on public sector wage bill vs. employment, vs. vacancy rates vs. skills, in relation to the total sector wage bill.
- Data analysis of the share of frontline versus administrative personnel, to ascertain the portion that is distributed in these categories.
- Status quo analysis of existing budget, allocation and funding arrangements, capturing budget and expenditure patterns (where analysis on budget and expenditure patterns has been conducted), to assess trends in personnel budgets and expenditures.
- Aggregate spending trends for the public service focusing on the public sector wage bill (national and provincial), excluding local government and state-owned enterprises.
- Practical case studies from previous research, to support the situational analysis of personnel funding in South Africa.
- International review of personnel funding and the public sector wage bill, as a benchmark, to compare (crowding out effects and trends) to the South African case, and to identify any lessons that can be learnt.

4.4 Findings

This section examines the public sector wage bill data and assesses the key drivers typically used to explain the upward spiral of total personnel costs. The assessment focuses on the interaction of the wage bill in four areas: personnel numbers, staff mix, productivity and salary notches. At a provincial level, the departments of education and health are looked at, as these departments have proportionately larger personnel budgets compared to other provincial departments. Health and education are labour-intensive in nature, and so any adjustments related to personnel will have a far greater effect than in other sectors.

4.4.1 Status Quo in Relation to the Public Sector Wage Bill

Over a six-year period, the total wage bill for the three spheres of government more than doubled, from R140 billion in 2003/04 to R290 billion in 2009/10. In relation to total government expenditure, the total wage bill amounted to 43 per cent in 2003/04, with a marginal decrease to 39 per cent in 2009/10. The MTEF projections show an increase to 41 per cent in 2012/13.

Table 29: Composition of the Wage Bill by Sphere (2003/04–2012/13)

			Average	
Rand (billion)	2003/04	2009/10	Share of Total Wage Bill	Real Annual Growth
National	38.5	75.28	27%	6%
Provincial	80.85	171.21	57%	7%
Local	21.58	44.68	15%	7%
TOTAL	140.95	291.17		
Wage bill as share of Total expenditure	**43%**	**39%**		

Source: National Treasury database, Commission's calculations.

On average, the provincial sphere accounts for more than half (57 per cent) of the total wage bill, followed by national government at 27 per cent and local government at 15 per cent. Between 2003/04 and 2009/10, the real wage bill increased by an average of 6.85 per cent annually. National and provincial government have a staff component of over a million employees under the Single Public Service initiative, with provinces employing about 73 per cent of all government employees[49] (National Treasury, 2012).

Figure 7 illustrates personnel expenditure as a proportion of total expenditure by sphere between 2003/04 and 2012/13. Provincial government spent by far the most on personnel, with the proportion of total provincial expenditure increasing from 50 per cent in 2003/04 to 58 per cent in 2012/13. A substantial upwards adjustment for provincial government, from 46 per cent in

[49] The creation of a single public service came out of a cabinet decision on 31 May 2006 and culminated in a legislative process to align and harmonise the operations of the three spheres of government. The objectives of the new model are to facilitate the mobility and deployment of public officials between spheres, standardise the work conditions, have uniform norms and standards for human resources, and create single service delivery points for citizens to access government services.

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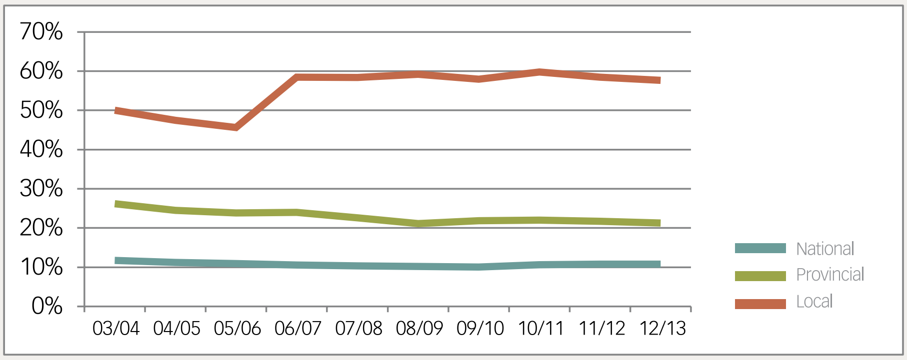
2005/06 to 58 per cent in 2006/07, resulted from underspending on non-recurrent expenditure items. For national and local spheres, average marginal reduction in national and provincial ratios occurred from 2006/07 through to 2012/13.

Figure 7: Personnel Share by Sphere



Source: National Treasury, Commission's calculations.

The functions assigned to each sphere are an important determinant of the magnitude of the personnel to total expenditure ratio. For example, national government makes policy and is typically not directly involved in service delivery (except for defence, justice cluster and home affairs etc.), and therefore would not be expected to spend the same proportion on salaries compared to provincial and local government.

Nevertheless, despite being assigned the labour-intensive education and health functions, the point to consider is whether provincial government is spending more of its total budget on personnel expenditure than it should. In 2011/12 health and education combined accounted for 86 per cent of the provincial wage bill. The results from the status quo assessment show that, in the current economic environment, the growth in the real wage bill may be difficult to sustain. If the real wage bill continues to increase at the same pace, the share of spending allocated to social and economic priorities such as infrastructure and social security may be affected. The growth of the wage bill also coincided with a significant increase in the net loan debt, from R474 billion (36.8 per cent of GDP) in 2003/04 to R1.2 trillion (38.6 per cent of GDP) in 2012/13. Of concern is the possibility that a failure to contain the wage bill could lead to increased inflation.

4.4.2 Factors Driving Rising Wage Bill

As mentioned, in a six-year period the total wage bill for the three spheres of government more than doubled. This section provides an overview of the possible cost drivers of this increase.

4.4.2.1 Employment Head Count

The government plays an important labour-absorptive role in the economy, especially during economic downturns, when employment remains relatively stable in the public sector but generally declines in the private sector. The stabilising effect of government in the labour market can moderate the recessionary effect on the economy through maintaining consumption levels.

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As Table 30 shows, between 2004/05 and 2011/12 the total number of public posts increased by an annual average of five per cent for education, and six per cent for health. In 2011 the total headcount was nearly half a million for education, and 329 253 for health. While permanent staff comprised almost 90 per cent of the total staff complement in 2011/12, since 2004/05 both departments substantially increased the number of contract and abnormal appointments.[50] Contract employees increased, on average, by 50 per cent per annum for education and 38 per cent for health. A similarly dramatic average annual increase was seen in abnormal appointments for education (96.5 per cent) and, to a lesser extent, health (23 per cent).

Table 30: Total Posts Filled by Main Provincial Sector (2004/05–2011/12)

	2004/2005		2011/2012		Avg Annual Growth	
	Education	Health	Education	Health	Education	Health
Head count						
Permanent	340 544	215 533	440 467	284 867	4.19%	5%
Contract	2 843	7 864	13 021	28 794	51.14%	38%
Abnormal	3 873	5 063	30 053	13 288	96.57%	23%
Other	21 280	3 223	14 266	2 304	-4.71%	-4%
Total	368 540	231 683	497 807	329 253	5.01%	6%
Percent of Total						
Permanent	92%	93%	88%	87%		
Contract	1%	3%	3%	9%		
Abnormal	1%	2%	6%	4%		
Other	6%	1%	3%	1%		

Source: DPSA (2012); the Commission's calculations

The substantial increase in contract and abnormal staff suggests that education and health departments are adopting a strategy to expand the skills set of its workforce in the short to medium term by using the flexibility and less onerous labour provisions that govern these positions.

There has been a significant increase in the number of additional posts filled between 2003/04 and 2011/12, with the growth for health being more pronounced, at an annual average of 38 per cent. In absolute terms, education employed almost three times more permanent staff (19 519) than health (7 882). However, of concern is the number of temporary posts created in education, which amounted to roughly 54 000 in 2011/12, having increased by about 12 000 over the seven years.

Table 31: Posts Filled Additional to Approved Staff Establishment

	2002/2003		2010/2011		Avg Annual Growth	
	Permanent	Temporary	Permanent	Temporary	Permanent	Temporary
Education	11 422	41 995	19 519	53 954	9%	4%
Health	1 954	1 192	7 882	1 321	38%	1%
Total	13 376	43 187	27 401	55 275	13%	3%

Source: DPSA (2012), the Commission's calculations.

[50] Abnormal appointments are positions that are filled which are not part of the approved organisational organogram

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These unfunded additional posts are a drain on the fiscal resources of departments because resources have not been allocated as part of established organogram structures. Departments establish these posts for operational reasons, when additional functions or support are needed, but they are not aligned with their organograms.

4.4.2.2 Staff mix

As yet, government does not have an agreed way of clearly demarcating administrative versus frontline staff. Typically, frontline staff are directly involved in activities or processes related to the beneficiaries of public goods or services, whereas administrative (or back office) staff support services that help frontline staff and ensure that the organisation operates seamlessly. The combination of frontline and administrative employees may vary from sector to sector. Although rarely directly involved in service delivery, managers are not considered to be back office staff, as they are supposed to play a strategic role.

Table 32 shows the staff mix for provincial education departments. Employees falling into employment levels 1–5 are defined as lower, levels 6–12 as middle, and 13–16 as senior level staff.

Table 32: Staff Mix of Provincial Education Departments (2003/04–11/12)[51]

EDUCATION	2003/'04			2011/12		
Provinces	Low: Middle	Low: Senior	Middle: Senior	Low: Middle	Low: Senior	Middle: Senior
Eastern Cape	0.16	161.48	995.0	0.20	242.95	1 237.13
Free State	0.27	231.04	851.3	0.27	155.34	573.50
Gauteng	0.20	187.47	921.0	0.29	176.84	618.09
KZN	0.22	184.17	828.4	0.26	300.45	1 163.68
Limpopo	0.08	124.62	1 529.1	0.07	56.66	854.44
Mpumalanga	0.16	206.10	1 257.2	no info.	no info.	no info
Northern Cape	0.34	155.27	454.7	0.28	79.79	285.03
North West	0.20	209.71	1 053.9	0.14	88.88	657.27
Western Cape	0.19	140.49	734.5	0.2	150.73	630.73
Average	0.20	177.82	958.3	0.2	156.45	752.48

Source: DPSA (2012), Commission's Calculations.

The most significant movement over time is the ratio of middle to senior management, which between 2003/04 and 2011/12 declined from 958 to 752 middle employees per one senior manager. This implies that overall senior management is growing faster than middle employees, although the picture varies from province to province. Limpopo had the most significant decline, going from 1 529 to 854 middle-level employees per one senior manager in 2003/04–2011/12. Compared to the average, Eastern Cape is not employing enough senior managers, whereas the Northern Cape has too many senior managers for the number of middle-level staff employed.

[51] No information on staff mix was available for the Mpumalanga Department of Education in 2011/12.

However, definite conclusions are difficult to draw because no benchmark exists. Furthermore, comparing averages is a crude indicator, since the appropriate managerial numbers would depend on a number of other factors such as the specific delivery model being employed by the respective provincial departments. Table 33 shows the staff mix for the provincial departments of health for 2003/04 and 2011/12.

Table 33: Staff Mix of Provincial Health Departments (2003/04–11/12)

HEALTH	2003/'04			2011/12		
Provinces	Low: Middle	Low: Senior	Middle: Senior	Low: Middle	Low: Senior	Middle: Senior
Eastern Cape	1.23	156.08	126.88	1.12	69.36	61.72
Free State	1.21	80.21	66.09	1.20	41.64	34.56
Gauteng	1.41	97.46	68.88	1.35	28.57	21.16
KZN	1.63	232.54	142.62	1.89	77.28	40.83
Limpopo	1.41	215.07	152.87	1.49	72.48	48.48
Mpumalanga	1.49	294.70	198.22	1.43	88.50	62.07
Northern Cape	1.29	132.42	102.84	1.18	37.69	31.98
North West	1.63	291.53	179.18	1.41	78.29	55.45
Western Cape	1.11	120.75	108.38	0.97	21.88	22.59
Average	1.38	180.08	127.33	1.34	57.30	42.09

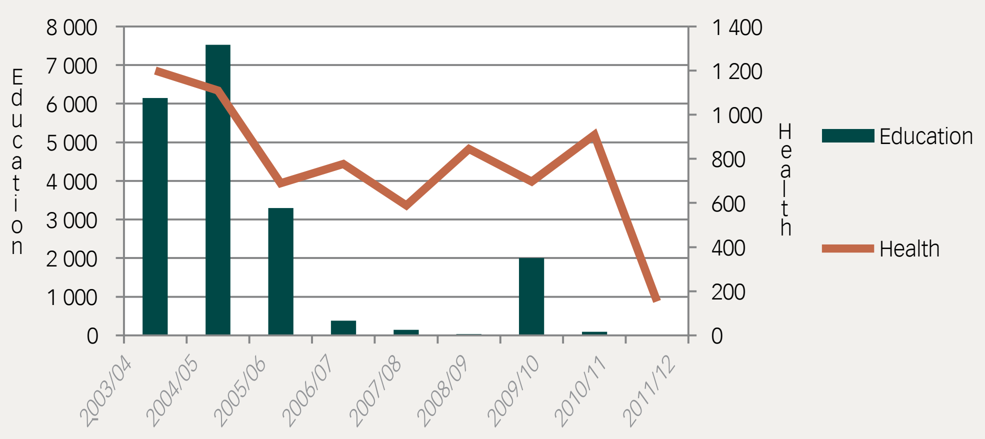
Source: DPSA (2012), Commission's Calculations.

Between 2003/04 and 2011/12, the ratio of lower-level staff to senior management and middle-level staff saw major shifts. The rapid increase in the number of senior management is driving down both ratios in all provinces. Gauteng (21) and Western Cape (22.6) have the lowest ratio of middle employees to senior management, suggesting that senior managers have fewer middle-level employees to supervise compared to other provinces, and have significantly expanded senior management personnel for health services. KwaZulu-Natal is also noteworthy, where in 2003/04 one senior manager was overseeing 142 middle-level employees, compared to only 40 in 2011/12. For health and education, the ratio of low-level to middle-level employees has remained relatively stable over time. This suggests that lower-level and middle-level staff operate in a proportional way. If the mix between lower-level and middle-level staff is optimal, any change in lower-level staff numbers will require a proportional adjustment to middle-level staff to keep the staff mix unchanged. Although comparing staff mix between education and health is problematic, the number of senior management employed in education does appear to be less than desirable. The likelihood of improving service quality and staff productivity increases when more senior managers are employed for the same number of middle managers. Further work in these areas is required to determine appropriate normative benchmarks, differentiated according the specific sector, the delivery model employed, service mix and quality, and access norms.

4.4.2.3 Salary notch upgrades and promotions

Typically, when posts are upgraded, the skills set required to function optimally in that position is increased, and hence the requisite salary associated with that post is also increased to a higher salary band or notch. The converse is true when posts are downgraded. In 2004/05 net upgrades in education amounted to 7 500,[52] and thereafter remained negligible, apart from 2009/10. For health, net upgrade of posts started off at 1 200 in 2003/04 and then remained steady at around 750, until declining to 154 in 2011/12. Net upgrades imply that additional resources are put aside to fund the higher levels of pay associated with those upgraded posts. Both sectors have managed to keep the number of upgraded posts under control in the past few years.

Figure 8: Net Upgrades of Posts – Provincial



Source: DPSA (2012), The Commission's Calculations.

It is important is to monitor closely the low levels of net upgrades to avoid the costly effect of unsustainable net upgrades. Until 2008/09, the number of employees promoted to another salary notch declined significantly for education and health, and then increased in 2009/10, after the conclusion of the OSD agreement. The dispensation guaranteed a three per cent increment between notches and grade promotion every two years, subject to meeting performance targets.

Table 34: Promotions

	2003/2004		2009/2010	
	Education	**Health**	**Education**	**Health**
Promotion to Another Salary Level	16 155	2 554	469 329	27 766
Promotion to Another Salary Notch	286 968	145 779	353 561	100 088

Source: DPSA (2012), The Commission's Calculations.

While promotions to another salary level rose steeply, especially for education, the figures should be interpreted with caution given the quality of data provided by provinces. Nevertheless, pay progression through salary and notch increases have contributed significantly to the increase in the salary bill in education and health.

[52] Net upgrade of posts is defined as the difference between the number of posts upgraded and the number of posts downgraded in a particular financial year.

4.5 Conclusion

The rising provincial public sector wage bill in South Africa is a complex issue. Reasons for the increase range from annual cost of living adjustments coupled to promotion and job re-grading, an increasing government employee population, the introduction of OSD, vital skilled posts not filled (leading to the appointment of contract workers and appointments being made without proper planning and budgeting), and poor organisational design. The analysis suggests that, in South Africa, increases in the wage bill do not necessarily result in an increase in productivity, which is inconsistent with the international literature. This implies that other factors could play an important role in moderating the effects of personnel spending on productivity. These include the collective bargaining process, which often results in higher salary increases than those assumed in the budget negotiations; poor supervision and management of frontline staff; and a lack of complementary equipment, supplies and infrastructure. Based on the econometric analysis carried out by the Commission, expenditure on employee compensation at the provincial level has no statistically significant effect on economic growth in the short term. The implication of this finding is that personnel expenditure could be reduced as part of fiscal consolidation without necessarily compromising economic growth.

This has to be balanced against the fact that provinces typically spend in areas such as health and education, which contribute both to long-term growth and broader social development. As a result, productivity increases within the existing quantum of personnel expenditure is also vital (e.g. by achieving a more appropriate skills mix), as well as the possible need to redirect funds from personnel expenditure to complementary inputs, such as equipment and infrastructure, to raise overall productivity. This implies that policy adjustments should not only be restricted to personnel management and performance-based measures, but should also include exercising effective accountability, financial management, organisation reform, and adherence to monitoring mechanisms.

4.6 Recommendations

With respect to the **provincial public sector wage bill,** the Commission recommends that:

- A transition over the medium to long term is required, towards a more appropriate balance between the wage and non-wage components of provincial budgets for social spending (starting with education and health). This should be in the form of national sector departments setting a norm or ratio of frontline versus administrative staff to total expenditure per sector and/or by specific occupational categories, and developing accurate and up-to-date management information systems to monitor employee compensation expenditure against those norms
- When human resources functions have been delegated to them, accounting officers are required to adhere to agreed staff establishment norms when filling posts. This requirement must be enforced through existing regulations and performance agreements. Furthermore, each accounting officer must be held accountable for establishing effective personnel spending controls, ensuring up-to-date and credible personnel information to act as an early warning, and for taking prompt corrective action when necessary.
- The capability of human resource functions within provincial line departments – to cost and budget for staff establishments, establish the necessary control systems, respond to Auditor-

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General queries, and manage financial and non-financial information – is enhanced. Provincial treasuries and Offices of the Premier should enhance their capacity to monitor, support and supervise management of employee compensation.

- Methods to improve productivity of health and education sectors are considered, such as computerisation of certain processes, reorganising and streamlining workflow, and organisational design. The non-wage components of provincial budgets should include adequate provision for health technologies and technologies for e-education (ICT) and supporting organisational innovations in order to enhance productivity in the social sector.

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