



2023 Public Sector Wage Gap Report



October 2023

New Zealand Taxpayers' Union

Background

The *Taxpayers' Union* has previously produced reports on the wage gap between the public and private sector and this report continues this series. In addition to wage gap analysis, this edition also investigates the growth in numbers at both the public and private Sector, providing special exploration into the Public Service and selected occupational data.

It is important to note that the Public Service refers to a subset of the public sector including only those employees engaged in Core Crown agencies – generally ministries and departments. A list of the departments included in the Public Service can be found on the Public Service Commission's website referenced at the end of this document. The public sector covers *all* people employed by the government, including those in health, education, law enforcement and other fields.

Executive summary

As of June 2023, the average public sector employee earned 21.3% more than the average private sector employee. This figure uses data from Statistics New Zealand for average hourly earnings showing the average public sector worker on \$45.94 an hour and the average private sector worker on \$37.88.

Recently though, as a result of higher wage growth in the private sector alongside pay freeze initiatives in the public sector, particularly with core crown departments, private sector average earnings have increased at a higher rate than in the public sector. This has caused the previously identified gap in sector earnings to narrow.

Over the last five years, the public sector headcount has grown at a much higher rate than that of the private sector. Since 2017, the public sector grew by 15.3% in size compared to just 9.4% for the private sector. Over the same period, across departments in the Public Service, staffing lists grew by even more at 27.0%.

In 2022, the public sector headcount accounted for 8.8% of the New Zealand population. In 2000, that figure was just 7.5%. As a proportion of the public sector, the Public Service headcount in 2022 accounted for 13.8% of the total workforce. In 2000 it made up just 10.4%.

Recently, there has been an explosion in the number of managerial appointees within Core Crown departments. At departments in the Public Service, there was a 43.4% increase in the number of managers between 2017 and 2022. In contrast, across the same period, the number of social, health or education workers within the Public Service grew by just 24.6%.

Data from the 2023 Workplace Wellness Report from Business NZ and Southern Cross revealed once again that public sector workers tend to take more sick leave than those in the private sector. Across 2022, employees in the public sector took an average of 6.5 days. For private sector workers the average was just 5.4.

Departments and ministries within the Public Service take even more sick leave than the rest of the public sector. In 2022, the average amount for sick/domestic leave taken across those departments was 8.3 days.

General limitations and assumptions

Due to many compositional differences between the public and private sector, as well as between the Public Service and the rest of the public sector, it is difficult to draw widespread comparisons between data streams. To counter this, we have looked for trends over time to determine whether recent figures are comparatively appropriate.

For the purposes of this report, we have given the Public Service special consideration. This is partly as departments within the Public Service have received the bulk of recent criticism from political parties as well as the general media for their workforce arrangements and therefore are of particular concern.

While there is an extensive array of information available on both public sector and private sector earnings, wage growth, and workforce size, there are few data on compositional elements of the sectors such as general worker roles. Information of this nature does exist on the Public Service Commission's website. However, this only provides data for the Public Service and not the public sector more widely; also hence why we have focused more heavily on those core departments rather than the rest of the public sector.

Data on earnings can be accessed through Statistics New Zealand's Infoshare website where figures are provided on a range of indicators measuring pay differences across sectors.

We have decided to use hourly earnings as this allows us to discount differences in the numbers of hours worked. It would have been preferable to use median hourly income markers as opposed to a general mean, however, Statistics New Zealand does not provide raw figures on this particular measure. Instead, we have used ordinary hourly earnings excluding overtime. This is consistent with the figure that Statistics New Zealand uses across their press releases.

As we have used average hourly earnings as opposed to median earnings, the true extent of the wage premium is likely to be deflated. Figures on quarterly earnings suggest this is the case, with the public sector premium on median earnings per quarter around 6 to 7 percentage points higher than when using average earnings.

Data on managers and informational professionals in this report refer exclusively to employees in the Public Service and therefore only include a small portion of the entire workforce. This is because little data on generalized roles exist for the wider Public Sector.

Data on frontline staff such as social, health and education workers are provided for those who work exclusively in the Public Service. As for the wider public sector, while a generalized occupational group data could not be attained, we have provided data on key roles for specific comparison, i.e., doctors, nurses and teachers.

The cost to the taxpayer for sick leave in 2022 was calculated using the difference in sick leave usage between public and private sector employees, public sector headcount as of June 2022 and average hourly earnings in the public sector for ordinary time (June Quarter 2022). As a yearly average hourly income of public sector workers for 2022 is not available, we have used average earnings for the June quarter as the next best alternative.

Any other limitations and the assumptions made will be explained throughout this report.

The public sector pay premium

While globally it is true that public sector workers tend to earn more than those in the Private Sector, the gap between the sectors is particularly wide in New Zealand.

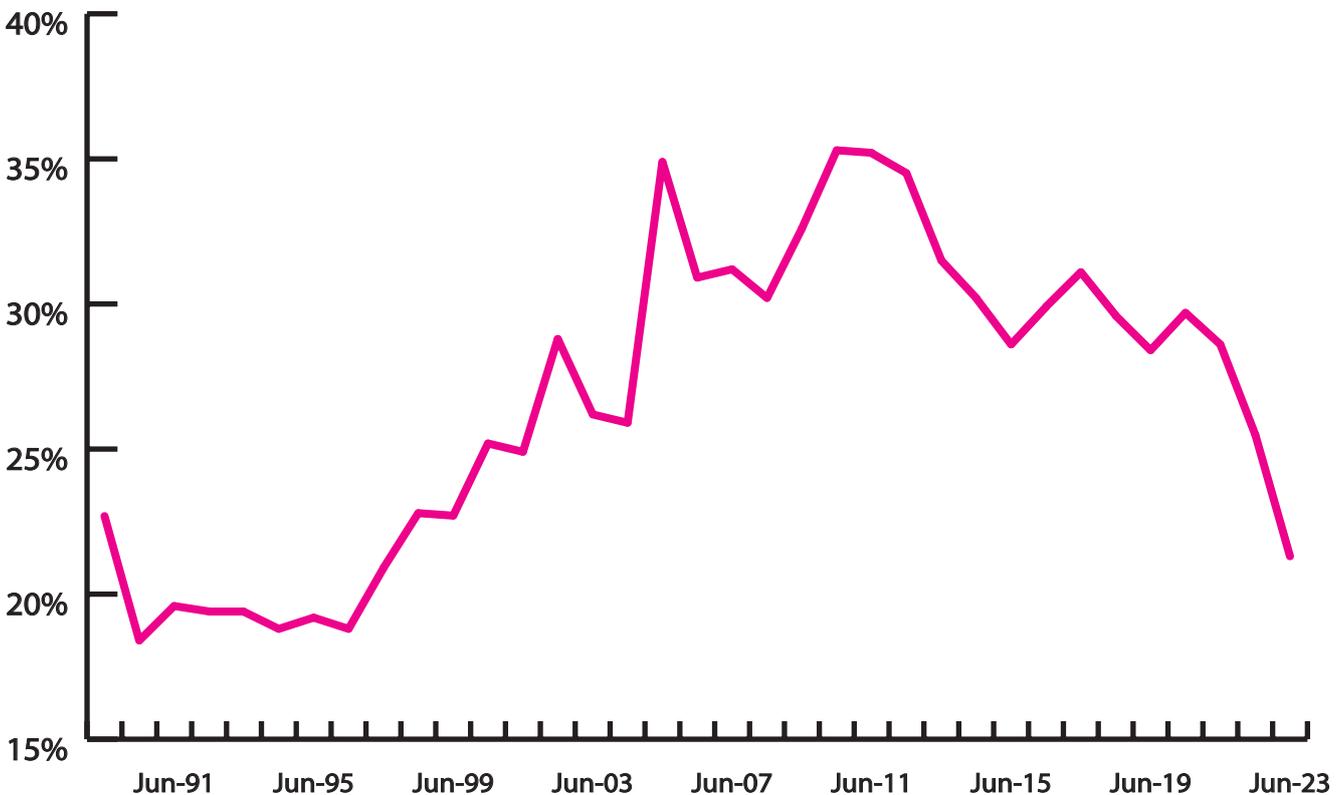
As of June 2023, the public sector premium over the private sector for average hourly earnings was 21.3%, according to Statistics New Zealand's QEM (Quarterly Employment Metrics) figures.

In the 2023 June quarter, average hourly earnings for ordinary time were \$45.94 for the public sector and \$37.88 for the private sector.

Over the last decade, the pay premium has narrowed significantly. What was a difference of over 35% in 2010 has come down by almost 15 percentage points in just over 10 years. As a percentage of private sector earnings, this is the lowest the premium has been since the late 1990s.

The recent decrease in this premium can be attributed largely to the wage freezes on public servants that were implemented over the pandemic period as well as recently strong wage growth within the private sector.

Public sector wage premium as a % of private sector average hourly earnings



Source: Statistics New Zealand

Higher pay in the Public Service

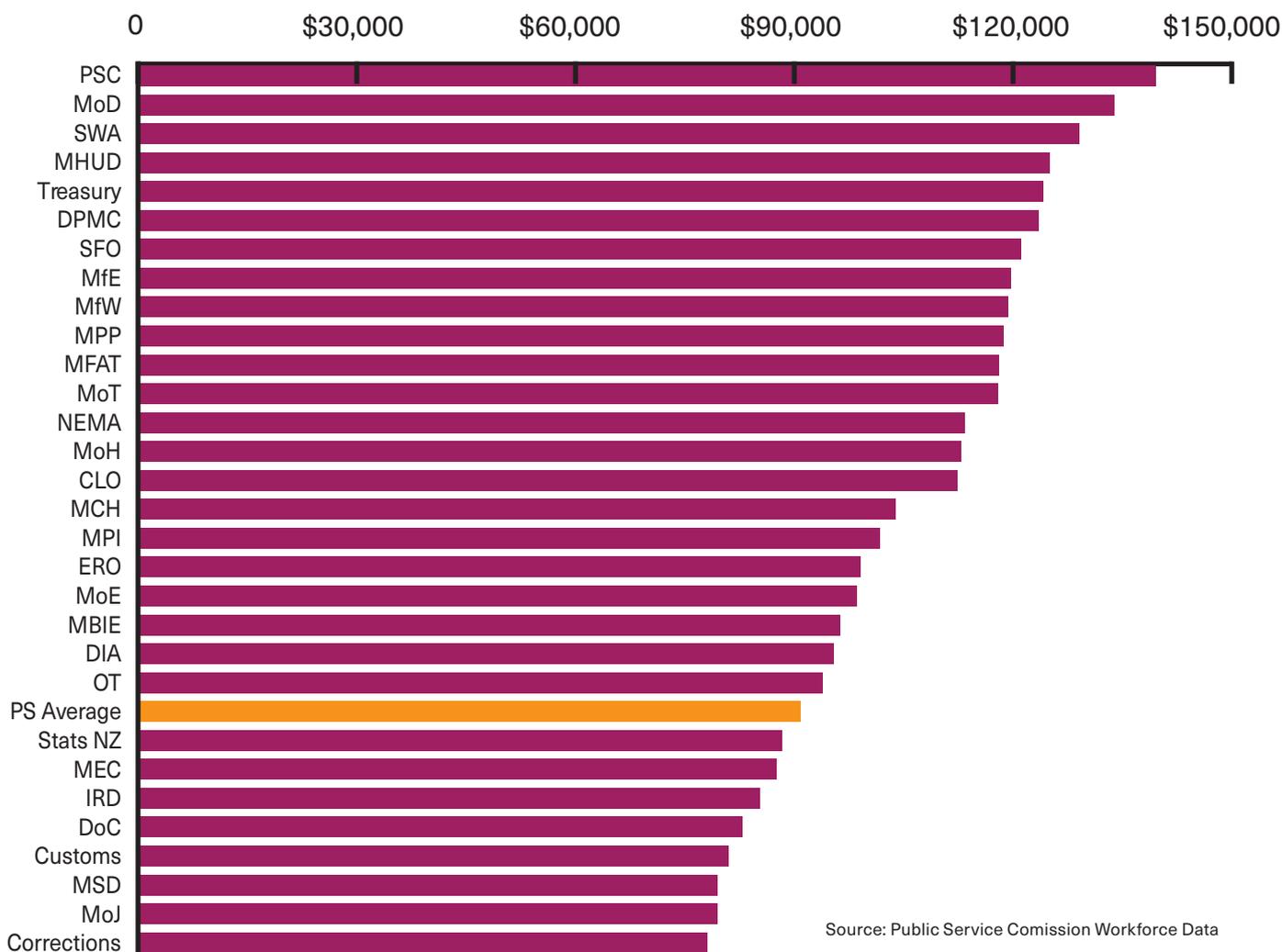
While the average pay for the public sector remains significantly higher than the private sector average, wages are even higher for Core Crown departments in the Public Service.

According to 2022 data from the Public Service Commission, the average base annual salary across Core Crown departments and ministries was \$90,800, up 3.7% from \$87,600 in 2021. While recent salary increases have been tailored towards the bottom end, average base salaries across the majority of ministries and core crown departments remain egregiously high.

As of 2022, the highest paid department in the Public Service was the Public Service Commission itself with an average annual base salary of \$139,600. The Ministry of Defence was second with an average of \$133,900 and the Social Wellbeing Agency was third with \$129,100.

The lowest paid departments, on average, were the Department of Corrections (\$78,100), the Ministry of Social Development (\$79,400), and the Ministry of Justice (\$79,400). These were also the Public Service departments with the largest staffing lists - hence why the Public Service average is lower than the average for most departments.

Average base salary per Public Service department in 2022



Source: Public Service Commission Workforce Data

Exploding headcounts

Both the public and private sector have seen considerable workforce growth over the last several years. Recently the public sector has, however, been swelling much faster. From 2017 to 2022, the total headcount at the public sector grew by 15.3%. Over the same period, growth in the private sector was just 9.4%.

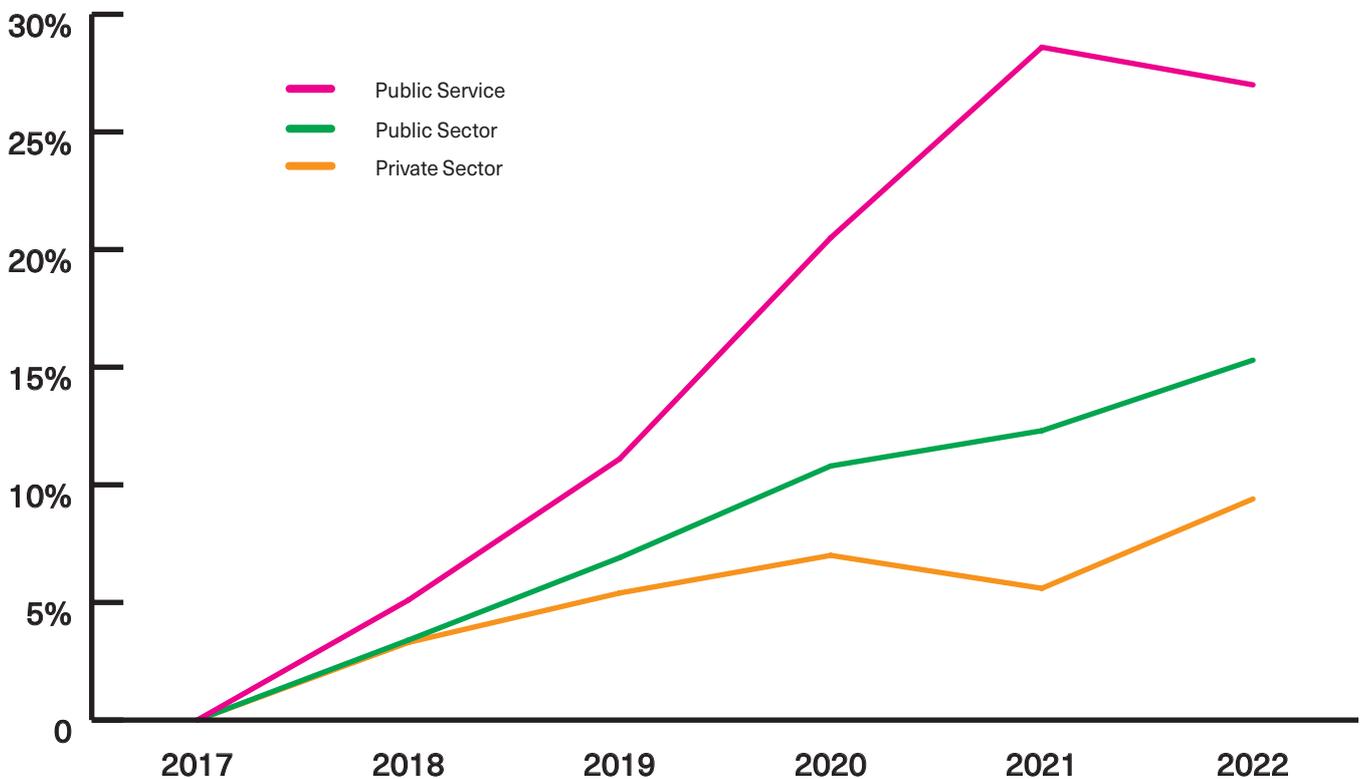
The public sector headcount increase over the last two decades has steadily exceeded population growth too. The latest headcount figure of 448,147 in 2022 accounted for 8.8% of the New Zealand population. In 2000, the proportion was just 7.5%.

And despite the Public Sector's recent workforce growth being so high, it has largely been fueled by a ballooning Public Service rather than increases to public health or education.

With a total headcount of 62,043 as of 2022, the Public Service is now 27.0% greater than it was in 2017. On a proportional basis, the Public Service has grown more in the last five years than it did for over a full decade prior.

Further to that, the Public Service staffing list now accounts for a much greater share of the public sector. In 2000, headcounts at Public Service departments accounted for 10.4% of the total public sector workforce. As of 2022 that proportion stood at 13.8%.

% Increase in total headcount 2017 - 2022



Source: Public Service Commission - Workforce Composition

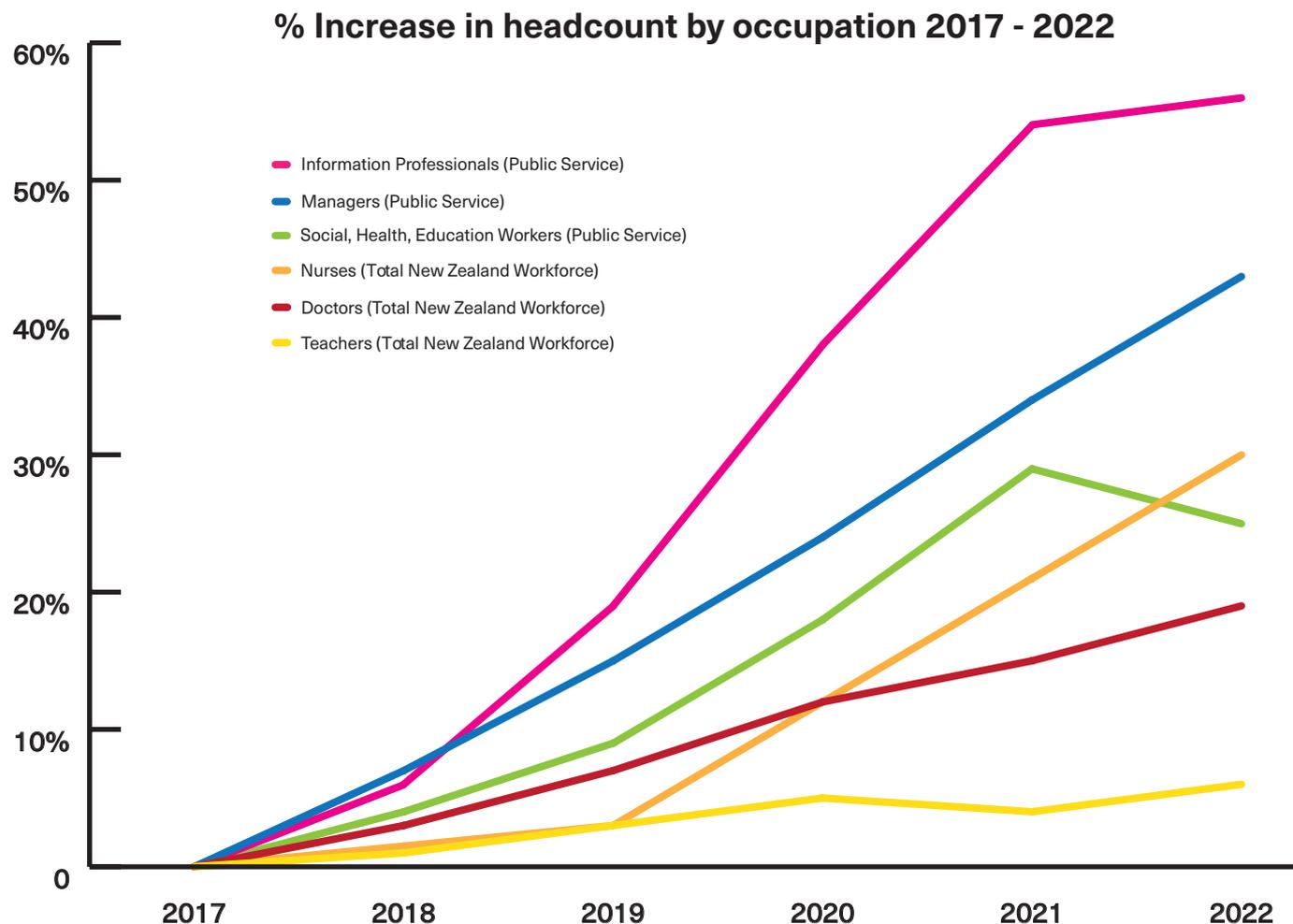
Back-office over frontline in the Public Service

While compositionally, the public service comprises mainly non-customer-facing staff, there is still a large chunk of workers that provide essential services on the frontline. As of 2022, 18.5% of the workforce were inspectors or regulatory officers, 17.7% worked in social, health or education fields, 14.0% were information professionals and 12.7% were in managerial roles.

Recently though, certain roles at the Public Service have been prioritized over others. From 2017 to 2022, across all departments, there was a 43.4% increase in the number of managers and a 55.8% increase in the number of information professionals. In contrast, across the same period, the number of social, health or education workers at the Public Service only grew by 24.6%.

For further comparison, data on key roles such as doctors, nurses and teachers across the entire New Zealand workforce shows numbers haven't been increasing nearly at the rate of certain roles in the Public Service.

While data across the entire public sector on managerial staff, information professionals and other occupations is not nearly as extensively available, data on the number of nurses, doctors and teachers from 2017 to 2022 from the entire New Zealand workforce indicates that frontline services across the wider public sector have also been slower than the back-office growth in Core Crown departments.



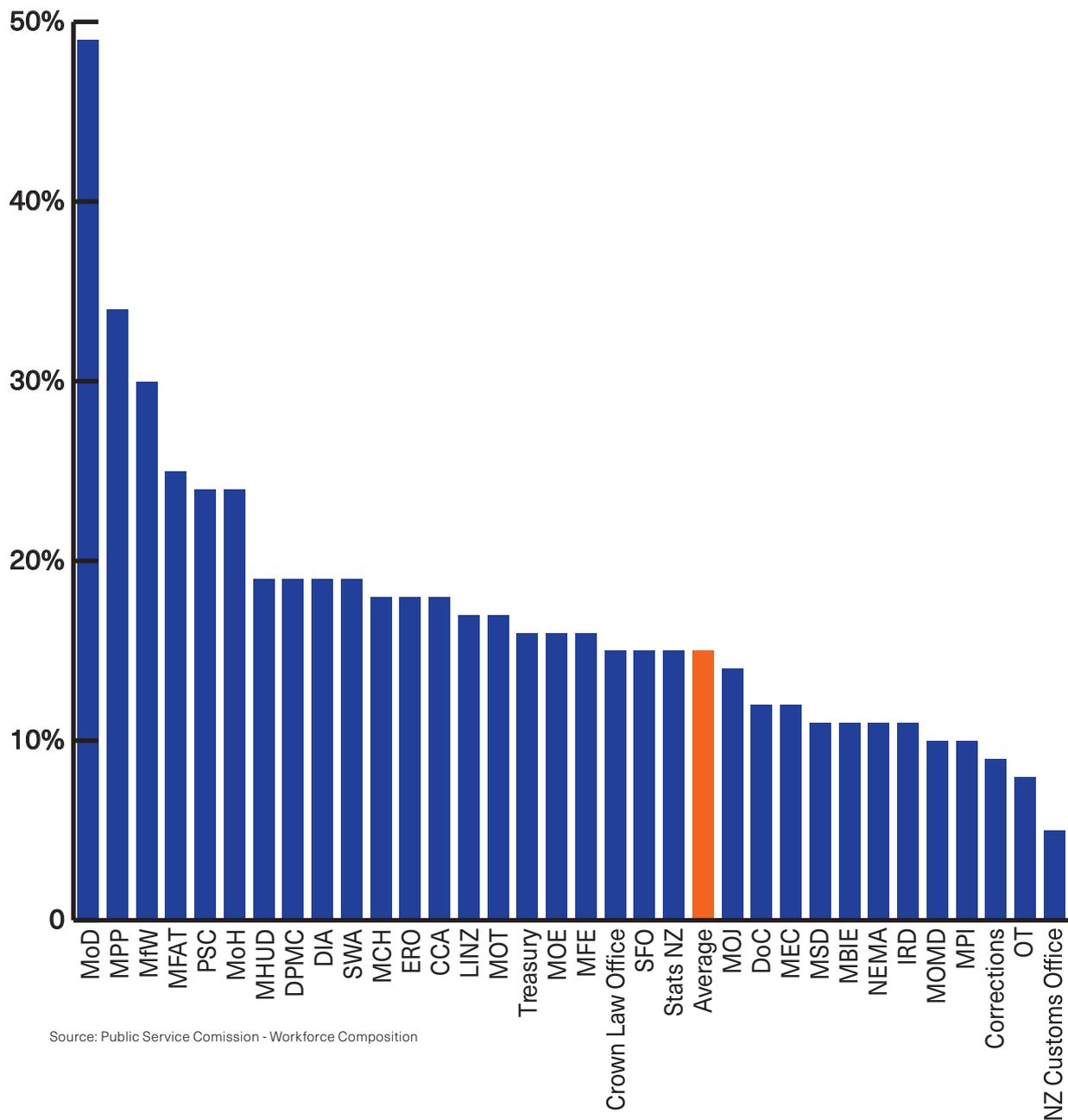
Source: Public Service Commission - Workforce Composition, Medical Council of New Zealand, Nursing Council of New Zealand, Education Counts

Too many managers in the Public Service?

With the surge of managerial appointments over recent years, many departments around the Public Service now have more managers on their staff list than they do for any other occupation.

At some departments, the proportion of managerial FTE (full-time equivalent staff) is well over 20%. Most egregious of all was the Ministry of Defence, with nearly half its payroll consisting of just managers - that is almost one for every staff member!

Proportion of managerial FTE staff per department in 2022



Source: Public Service Commission - Workforce Composition

Sick leave usage

Sick leave represents paid leave that accounts for a variety of personal issues including sickness, injury, and domestic care. Businesses and organisations must offer a minimum of 10 days a year to each employee.

Recent data from the Business NZ Southern Cross Workplace Wellness Report covering the 2022 year indicates that public sector workers take an average of 1.1 days more in sick leave than those in the Private Sector.

In 2022 the average public sector employee took 6.5 days a year in sick leave. In the private sector, the average was 5.4.

Unsurprisingly, private sector workers in non-manual labour took fewer sick days than private sector employees in manual work (4.5 for non-manual and 7.2 for manual).

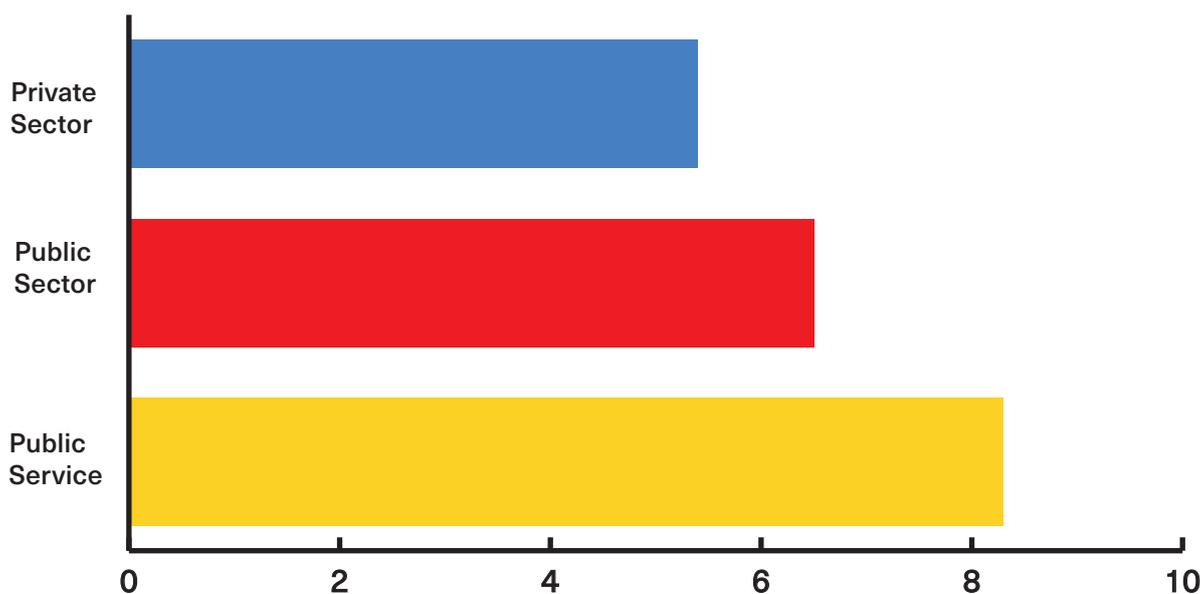
The opposite was true for the public sector, however, where non-manual government workers took more sick days than government workers in manual labour (6.6 for non-manual and 5.8 for manual).

With the extension to the sick leave entitlement coming into force from 2021, data from the 2023 Workplace Wellness Report provides the first glance at what the effect of this extra allowance has been.

Using average hourly wage data from the 2022 June quarter, we estimate that if public sector employees took the same number of sick days as those in the private sector for 2022, taxpayers would have saved around \$174 million.

While sick leave is taken at a higher rate in the public sector than in the private sector, it is taken even more liberally across core departments in the Public Service. In 2022, Public Service employees took an average of 8.3 days of sick or domestic leave. While this figure is relatively unchanged since 2017, it is still nearly 2 days more, on average, than from the early 2000s.

Average sick leave per employee in 2022



Source: Business NZ Southern Cross Workplace and Wellness Report 2023 (Public Sector and Private Sector), Public Service Commission Workforce Data (Public Service)

Extra annual leave entitlement

Further to wage premiums, many public servants were awarded extra benefits in terms of paid leave entitlements in 2022.

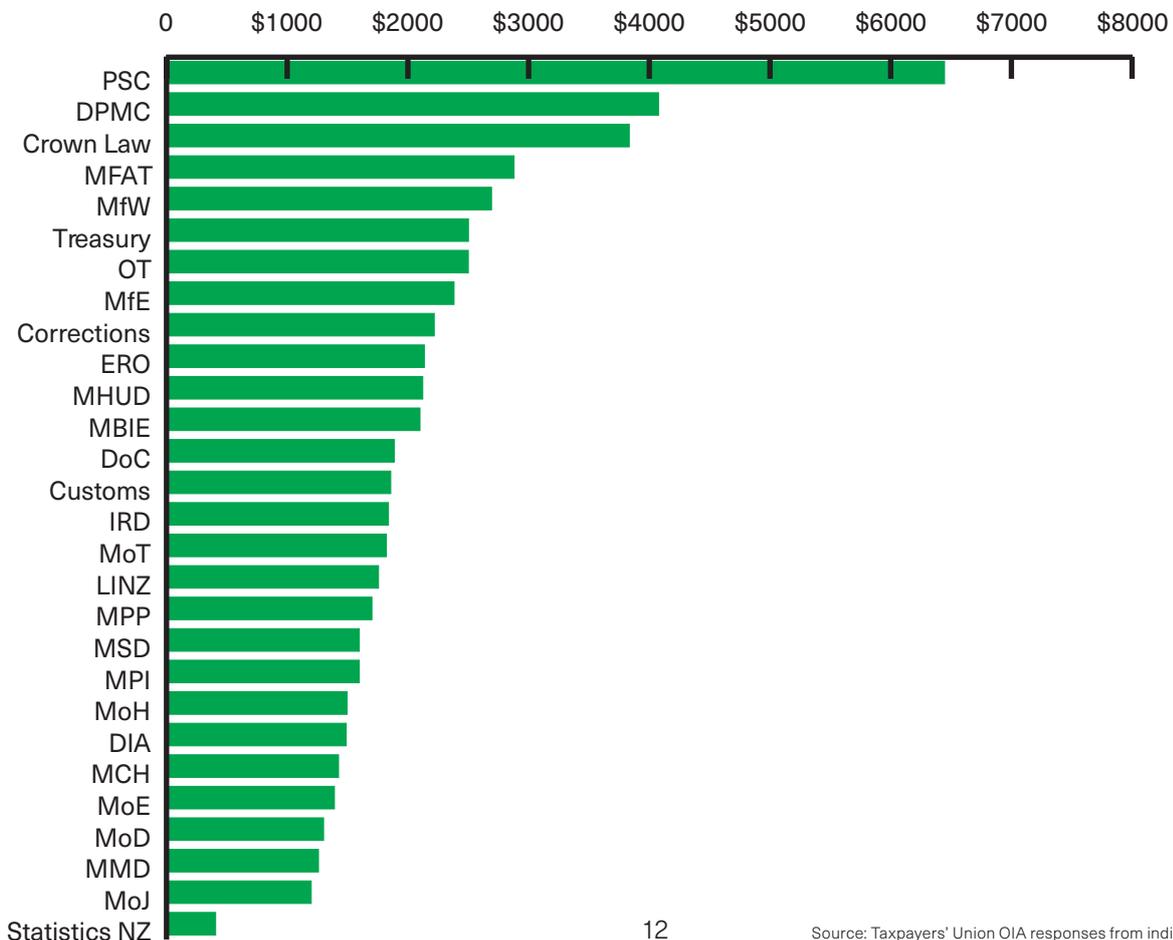
The *Taxpayers' Union* asked all ministries and departments in the Public Service whether any extra paid leave entitlements in excess of the statutory four weeks of annual leave were allocated to staff. We also asked what the total cost of providing these extra entitlements amounted to.

According to the information we received, virtually all departments allocated at least one or two days of paid leave over and above the statutory four weeks for so-called 'departmental holidays'. In many cases, extra leave was given to some staff up to and over a couple weeks over the mandatory four weeks.

In total, the combination of departmental days as well as extra annual leave entitlements cost the taxpayer over \$109 million in 2022. Bear in mind that some departments either didn't respond to our request or refused to provide a total cost.

On a per capita basis, the Public Service Commission were by far the most generous, with an average cost of \$6,443 worth of extra entitlements handed out per full-time equivalent employee (FTE). That is over 50% more than any other department. The Department of the Prime Minister and Cabinet was second with an average of \$4,077 per FTE and the Crown Law Office was third with \$3,835.

Average cost of extra annual leave entitlement per FTE in 2022



Expectations

While the pay disparity between the public and private sectors has narrowed over the last decade, there is reason to think the gap could widen once again. With wage restrictions on public servants now lifted, there will be immense pressure on the next Government to raise public sector wages, particularly with those on higher incomes who were more harshly affected by the pay freezes.

The headcount at the public sector looks to show no sign of slowing down. If staff numbers continue to increase as they have done, particularly within the Public Service, then Crown expenditure on personnel will balloon even further. This will only continue to contribute to the enormous budget deficit facing the Government.

With sick leave extended to a minimum of 10 days per year as of 2021, it is likely that employees will take more days on average over the coming years. 2022 data from the 2023 Workplace Wellness Report showed that workers in both sectors were already starting to make use of this extra allowance, with the highest recorded average sick leave since the report began.

Recommendations

There will be immense pressure on the Government over the coming years to raise public sector wages significantly to counter the pay freeze that existed during the pandemic years, but it is paramount that the wage gap does not increase again. The Government must commit to keeping public sector wage growth balanced against comparable increases in the private sector.

The *Taxpayers' Union* believes that current staffing growth in both the wider public sector as well as the Public Service is far too high. At a bare minimum, public sector staffing growth should not exceed population growth. However, if there is significant room for services to be provided with less personnel, the Government should look to reduce the headcount in those areas to reduce debt and the burden on the taxpayer.

Despite the protestations of unions, the public sector should not necessarily grow in proportion with population growth. While there is an argument that such growth may be appropriate for front-line staff, such as social, health and educational workers, the recent explosion in Public Service managerial and back-office numbers appears to be unjustified.

At a time of rampant inflation and the Government dealing with a multi-billion-dollar budget deficit it is paramount that key services are delivered efficiently to Kiwis. This means prioritizing the appointment of frontline staff over managerial appointments.

The *Taxpayers' Union* recommends the Government looks carefully at the recent increase in Public Service managerial and back-office roles to identify whether the current configuration is appropriate. In light of a rising cost-of-living as well as continuous growing budget deficits, the Government must ensure that future Crown spending on personnel is heavily constrained and this starts with those behind the scenes.

The Workplace and Wellness Report, which is produced every three years by Business NZ and Southern Cross, continues to show public sector workers taking more sick leave than those in the private sector. At the very least, the Government should investigate this disparity to determine whether it can be accounted for in terms of job differential or whether sick leave is being taken unnecessarily.

References

- Data on the wage premium between the public and private sector comes from Statistics New Zealand's data on average sectoral earnings. On the Infoshare website look for 'Work and Income Spending', then 'Quarterly Employment Survey' – <https://infoshare.stats.govt.nz/SelectVariables.aspx?pxID=2a1cec4b-9e0a-411f-952e-5cfa6fb32c4a>
- Quarterly earnings by sector can be found from Statistics New Zealand Linked Employee-Employer Data on their Infoshare website.
- Workforce growth in the public sector, private sector and Public Service can be found on the Public Service Commission website alongside compositional increases such as for managers and frontline staff. The latest data is for 2022: <https://www.publicservice.govt.nz/news/2022-public-service-workforce-data-published/>
- For sick leave (absent days) by sector see the Business NZ Southern Cross Workplace Wellness Report 2023: <https://businessnz.org.nz/wp-content/uploads/2023/08/Workplace-Wellness-Report-2023.pdf>
- Sick leave for the Public Service departments can be accessed through the Public Service Commission Website: <https://www.publicservice.govt.nz/research-and-data/workforce-data-working-in-the-public-service/workforce-data-wellbeing-at-work/>
- Average remuneration per department in the Public Service can be found on the Public Service Commission website: <https://www.publicservice.govt.nz/research-and-data/workforce-data-remunerationpay/workforce-data/>
- Population estimates are taken from Statistics New Zealand and are monitored quarterly.
- Data on extra annual leave entitlements was provided from an array of OIAs that were collated by the *Taxpayers' Union*. A link to the final spreadsheet can be found here.
- Data on the number of teachers can be found on the Government's 'Education Counts' database or at the link here: <https://www.educationcounts.govt.nz/statistics/teacher-numbers#5>
- Data on the number of doctors was sourced from the Medical Council of New Zealand or can be found at the link here: <https://www.mcnz.org.nz/assets/Publications/Workforce-Survey/64f90670c8/Workforce-Survey-Report-2022.pdf>
- Data on the number of nurses was sourced from Nursing Council of New Zealand or can be found at the link here: https://www.nursingcouncil.org.nz/Public/News_Media/Publications/Workforce_Statistics/NCNZ/publications-section/Workforce_statistics.aspx?hkey=3f3f39c4-c909-4d1d-b87f-e6270b531145

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New Zealand Taxpayers' Union investigates the public sector wage gap and other workforce data



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