national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

GUIDELINES FOR COSTING AND BUDGETING FOR COMPENSATION OF EMPLOYEES

FOR THE PREPARATION OF EXPENDITURE ESTIMATES FOR THE 2016 MEDIUM TERM EXPENDITURE FRAMEWORK (MTEF)

National Treasury

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1 INTRODUCTION

1.1 The purpose of these guidelines is to provide guidance to institutions on costing and budgeting for compensation of employees (COE).

1.2 The 2012 wage agreement came to an end in 2014/15 financial year. A new multi-year agreement has been signed in May 2015, allowing for a multi-year salary adjustment and improvements to conditions of service for employees for the period 2015/16 to 2017/18.

1.3 Key drivers of wage agreement costs over the 2015 MTEF are revised inflation projections, above CPI cost of living adjustments, housing allowance increase and medical allowance contribution increases as follows:

- A 7% cost-of-living adjustment in 2015/16, followed by improvements of CPI + 1% in each of the next two fiscal years.
- An increase of the housing allowance from R900 per qualifying person per month to R1200 for 2015/16 increasing by inflation from 2017/18 financial year.
- An increase in medical allowance of 28.5% for 2015/16 increasing in line with medical CPI for subsequent periods.

1.4 In previous budget cycles significant resources were available above the baseline to accommodate unanticipated wage pressure. This included drawdowns on the contingency reserves and other additions to baseline. Given current fiscal constraints, scope for the provision of additional resources will be very limited.

1.5 As was the case in 2014/15, institutions will therefore need to reprioritise from existing baselines and manage headcount growth to respond to above-inflation wage pressures over the next three years. Institutions are urged to pro-actively manage their personnel establishments and take action to reduce costs associated with promotions and progression over the medium term. Only vacant funded posts should be filled with due consideration to availability of adequate funding for the whole of the 2016 MTEF. Active steps will be taken against institutions that do not abide by this requirement.

2 BASIC COSTING PROCEDURES

2.1 Institutions are expected to continue to budget for compensation of employees within their existing baselines. Institutions must ensure alignment between compensation of employees budgets and personnel headcount. All institutions must ensure that they stay within allocated budget. Relevant Treasuries will refer back budget submissions that are unrealistic.

2.2 The 2016 MTEF indicative baseline does not provide for general funding of new posts, except in cases where departments were specifically allocated funding to create new critical posts in the 2015 Budget or have undertaken reprioritisation from areas of savings. Funding for employment of personnel over and above already agreed funded establishments will be considered only where critical skills are required or in very exceptional circumstances. This must be properly motivated to the relevant Treasury. Due to high budget constraints, these allocations will need to be financed by reallocated resources from funded vacancies or elsewhere within the institution's baseline.

2.3 Effective management of work that is outsourced to consultants is also important. Consultants should not be required to do work that should be done by staff employed within institutions. That is, all personnel in institutions should be fully utilised to avoid unnecessary use of consultants.

2.4 Institutions should ensure that the following are taken into account when budgeting for compensation of employees:

- Ministerial determinations and directives (e.g those issued by Minister for Public Service and Administration)
- Public Sector Co-ordinating Bargaining Council (PSCBC) agreements
- Cabinet decisions relating to remuneration and personnel management matters and expansion of mandates

2.5 A database with the personnel sheet has been provided for institutions to populate. Detailed explanation has been provided in the database guideline sheet.

2.6 To cost personnel budgets the projected annual cost of filled posts as at end of June 2015 plus cost of vacant funded posts to be filled for the remainder of the financial year should be used as a base for projections over the MTEF. This is the *revised estimate* for 2015/16 as at the end of June 2015.

2.7 Revised estimate figures need to be generated *per item of payments per salary level* within the COE line item to allow for application of the different dispensations such as Senior Management Service (SMS) and Occupation-Specific Dispensations (OSDs). For instance, the COE line item is composed of items of payments such as basic salary, pension, overtime, performance bonus[1], medical allowances, etc.

2.8 Actual expenditure figures on filled posts must be extracted from your pay-roll system (such as PERSAL; PERSOL; SAP, etc) for each item of payments for SMS and non-SMS employees, respectively. Costs of posts to be filled for the remainder of the financial year, as well as financial implications of promotions and demotions, should be generated from institution's Human Resource Management (HRM) plan.

2.9 To generate COE costs over the MTEF, the revised budget estimates for 2015/16 financial year for each item of payments should first be increased by the cost of living adjustment *escalation factors* applicable to each fiscal year. This operation yields the cost of personnel taking into account the cost of living adjustment (COLA) and other escalation factors agreed to in the wage agreement. These escalation factors are shown in the table below.

[1] Institutions should ensure that performance bonuses constitute a maximum of 1.5% of annual remuneration budget as per remuneration policy.

TABLE 1: COLA ESCALATION FACTORS

PAYMENT ITEM	2015/16	2016/17	2017/18	2018/19
Basic salary (non SMS)	7.0%	7.2%	6.8%	5.8%
Basic salary (SMS)[2]	7.0%	7.2%	6.8%	5.8%
Housing allowance	33.3%	0%	5.8%	5.8%
Overtime	7.0%	7.2%	6.8%	5.8%
Employer contribution: Medical	28.5%	8.7%	8.3%	8.3%
Employer contribution: Pension	7.0%	7.2%	6.8%	5.8%
Performance bonus	7.0%	7.2%	6.8%	5.8%
All other	7.0%	7.2%	6.8%	5.8%

2.10 Having applied escalation factors to the baseline to yield the wage bill cost per item, *progression factors* are then applied to the results of the previous operation. This operation yields the wage bill cost per item of payments with escalation and progression factors. The 2012 wage agreement has extended the qualifying period for progression for first time participants from 12 to 24 months. Thereafter, employees qualify for progression annually. Note that, progression rates differ according to the remuneration policies in different sectors. The following are progression rates applicable to each of the sectors:

a) Education: 1% every year;

b) Correctional Services: 3% every second year;

c) Police: 4% every three years;

d) Defence: 4% every two years; and

e) All other sectors: 1.5% every year.

2.11 Progression rates applicable to each of the sectors are divided by the applicable number of years to yield *effective progression factors*[3] for each year. The following table shows the annual effective progression factors to be applied to each item of payment. Note that progression does not apply to housing and medical allowances, bargaining chamber contributions or Unemployment Insurance Fund contributions.

TABLE 2: EFFECTIVE PROGRESSION FACTORS (APPLIED TO EVERY YEAR OF THE 2016 MTEF)

PAYMENT ITEM	ALL OTHER DEPARTMENTS	PROVINCIAL EDUCATION	SAPS	DEFENCE
Basic salary	1.5%	1.0%	1.3%	2.0%
Overtime	1.5%	1.0%	1.3%	2.0%
Employer contribution: Pension	1.5%	1.0%	1.3%	2.0%
Performance bonus	1.5%	1.0%	1.3%	2.0%
Other items	1.5%	1.0%	1.3%	2.0%

[2] COLA escalation factors for SMS members in the public service are not subject to negotiation at the Public Service Co-Ordinating Bargaining Council (PSCBC). They are determined by the Minister for Public Service and Administration (MPSA) in consultation with the Minister of Finance. COLA escalation factors quoted in the table are indicative for the purposes of budgeting. The Department of Public Service and Administration will publish final factors that will be used for SMS salary adjustments each financial year.

[3] Institutions are urged to manage their staff establishments to ensure that all costs of progression (both notch and grade progression for OSD and non-OSD employees) are met within the effective progression factors provided in Table 2.

2.12 Having applied escalation and progression factors, the third element is to apply a personnel *headcount growth factor*. This operation yields the total wage bill cost per item of payments with escalation, progression and personnel growth factors. Headcount growth must be kept to a minimum, but where headcount growth is built into the 2015 MTEF baseline this should be reflected. Any planned headcount growth to fill critical posts over and above that built into the 2015 MTEF baseline should be explicitly approved by the relevant Treasury, subject to funding availability. In most cases increases in personnel with critical skills will be funded through reprioritisation from less critical areas.

2.13 In summary, to generate personnel costs for the 2016/17 financial year, the following computational procedures must be followed:

A: Take revised estimate for 2015/16 per item of payments as at 30 June 2015

B: Multiply each payment item in (A) by the applicable cost of living adjustment rates for 2016/17 given in Table 1. Add the results to each payment item respectively

C: For each item of payment, multiply the result obtained in B by the applicable effective progression rate as given in Table 2. Add the results to each payment item respectively

D: For each item of payment, multiply the result obtained in C by the headcount growth factor for 2016/17. Add the results to each payment item respectively

E: Add together all the item of payment to generate the 2016/17 revised baseline

F: Use the new baseline obtained for 2016/17 (using steps B to E to calculate 2017/18. Then use the new 2017/18 baseline to calculate 2018/19. Estimates for subsequent years are arrived at by following the same procedures.

2.14 An excel based costing and budgeting tool is provided on the National Treasury website[4] to assist institutions with costing of personnel budgets. The tool is built to allow ease of application of the five steps described above and should be used to cost both filled and vacant funded posts to be filled.

3 OTHER COSTS TO BE TAKEN INTO ACCOUNT

3.1 In addition to the basic costing procedure, institutions should take account of relevant policies, Ministerial Determinations and Cabinet decisions for items not specifically covered in section 2 above.

3.2 The 2015 MTEF guidelines provided detailed guidance on costing procedures for the following:

- Long service recognition
- Night shift allowances
- Housing allowance; and
- Improved qualifications.

[4] www.treasury.gov.za/publications/guidelines

3.3 Institutions affected by the PSCBC resolutions are requested to consult the DPSA website[5] for information on how these and other allowances and benefits are to be adjusted for each financial year.

4 COMPLETING THE PERSONNEL SHEETS FOR 2016 MTEF DATABASE SUBMISSIONS

4.1 The excel-based *personnel costing and budgeting tool* posted on the National Treasury website[6] can assist institutions in assessing the value and average quantity of vacant funded posts. Instructions on how to use the tool are included in the spreadsheet. The tool can be used during the budget process before the beginning of the financial year to measure the value of funds available to fill critical vacant funded posts. It can also be used during the financial year to reconcile the personnel budget with expenditure and Human Resource information on posts that are funded and available to be filled.

4.2 Guidelines for completing the Personnel sheet of Departments and Public Entities are included in the "technical Guidelines" sheet in the respective database.

[5] www.dpsa.gov.za
[6] www.treasury.gov.za/publications/guidelines