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 2020 MEDIUM TERM EXPENDITURE FRAMEWORK (MTEF)

National Treasury

June 2019

1 Introduction

1.1 Institutions are expected to adhere to the set compensation ceilings during the 2020 MTEF. They will be expected to summarize the content of the Human Resource Budget Plans (HRBP) indicating how the institutions will manage their workforces within the allocated compensation budget ceilings.

1.2 Institutions are also expected to manage and monitor implementation of set ceilings and headcount numbers with the view to identify the sources of cost pressures so that corrective measures can be taken, with the support of Treasuries.

2 Wage Agreement

2.1 A new multi-year wage agreement was signed in June 2018. The agreement is implemented with effect from 1 April 2018 and allows for the adjustment and improvements to conditions of service for employees for the period 2018/19 to 2020/21. The wage adjustments are aligned to the CPI inflation projections detailed below.

CPI inflation projections

2.2 CPI inflation projections are as follows:

- 2019/20: 5.2%
- 2020/21: 5.1%
- 2021/22: 5.0%
- 2022/23: 4.8%

2.3 Key cost drivers of the wage agreement over the 2020 MTEF have been revised. Cost of living adjustments, housing, medical allowance increases and progression rates are detailed below.

Cost of living adjustments

2.3.1 The cost-of-living adjustment in 2019/20 is as follows:

- 6.2% (CPI + 1%) for salary levels 1-7
- 5.7% (CPI + 0.5%) for salary levels 8-10
- 5.2% (CPI) for salary levels 11-12

2.3.2 The cost-of-living adjustment in 2020/21 is as follows:

- 6.1% (CPI + 1%) for salary levels 1-7
- 5.6% (CPI + 0.5%) for salary levels 8-10
- 5.1% (CPI) for salary levels 11-12

2.3.3 The cost-of-living adjustment in 2021/22 is as follows (not covered by the 2018 wage agreement but based on the provisions of the last two years of the agreement):

- 6.0% (CPI + 1%) for salary levels 1-7
- 5.5% (CPI + 0.5%) for salary levels 8-10
- 5.0% (CPI) for salary levels 11-12

2.3.4 The cost-of-living adjustment in 2022/23 is as follows (not covered by the 2018 wage agreement but based on the provisions of the last two years of the agreement):

- 5.8% (CPI + 1%) for salary levels 1-7
- 5.3% (CPI + 0.5%) for salary levels 8-10
- 4.8% (CPI) for salary levels 11-12

Medical Allowance

2.3.5 The actual increase of medical allowance is 8.6% for 2019 calendar year. Medical allowances projections are based on Medical Price Index (MPI), which is normally CPI + 2.5%. The following are the projections used in the HRBP for budgeting purposes.

- 7.6% (CPI + 2.5%) in 2020/21
- 7.5% (CPI + 2.5%) in 2021/22
- 7.3% (CPI + 2.5%) in 2022/23

Housing Allowance

2.3.6 An increase of Housing Allowance by CPI each year.

- R1399 in 2019/20
- R1470 in 2020/21
- R1544 in 2021/22
- R1618 in 2022/23

2.3.7 Parties to the negotiations have agreed to delink payment of housing allowance of spouses. Therefore, Clause 7.1.4(b) of PSCBC Resolution 2 of 2004 no longer applies. Departments are required to delink housing allowance as follows:

- Spouses of employees on salary level 1-5 with effect from 1 September 2018; and
- Spouses of employees on salary level 6-12 with effect from 1 September 2019.

2.3.8 Departments are requested to carefully budget for costs of extending the housing allowance to qualifying spouses of public servants over the MTEF.

Escalation factors for SMS and MMS

2.3.9 Escalation factors applicable to Middle Management Services (MMS) and Senior Management Services (SMS) are detailed in Tables 3 and 4 below.

Progression rates

2.3.10 Parties to the negotiations have agreed to the equalisation of pay progression across the public service at 1.5 per cent per annum.

2.3.11 Equalisation is to be implemented incrementally for educators employed in terms of the Employment of Educators Act 76 of 1998 (as amended); TVET lecturers employed in terms of the Public Service Act 103 of 1994 (as amended); and the Educators appointed in terms of the Correctional Services Act 111 of 1998 (as amended). Implementation should be as follows:

- Increasing of the progression rate from 1.0 per cent per annum to 1.3 per cent per annum with effect from 1 July 2018 (i.e. an across the board adjustment of 0.3 per cent)
- Increasing the progression rate from 1.3 per cent per annum to 1.5 per cent per annum with effect from 1 July 2019 (i.e. an across the board adjustment of 0.2 per cent)

2.3.12 Equalisation for employees employed in terms of the Police Service Act 68 of 1995 (as amended) should be implemented as follows:

- Increasing progression from an average of 1.3 per cent per annum to 1.5 per cent per annum with effect from 1 July 2019 (i.e. an across the board adjustment of 0.2 per cent)

3 Funding of Wage Agreement Costs

3.1 No additional funding will be made available to directly fund the costs associated with the wage agreement. Departments are expected to fund the wage agreement costs from within the current compensation budget baselines.

3.2 Departments are expected to thoroughly explore strategies available for headcount management as provided in various circulars and policy documents issued by the DPSA. Where further guidance is required, departments are urged to consult the DPSA directly.

4 Funding for Early Retirement without Penalisation

4.1 Funding will be made available from the fiscus to finance costs associated with implementation of Early Retirement without a pension penalty (i.e. with no scaling down).

4.2 Departments are expected to set up early retirement assessment committees within the department to assess applications from eligible employees.

4.3 Departments are to consolidate and submit recommended applications and all supporting documentation directly to the relevant National Treasury budget analyst.

4.4 Submissions should include at least the following prescribed documents:

a. High level covering motivation describing the impact of recommended applications on service delivery, transformation, skills and capacity to deliver, and financial plan (costs and savings)

b. Early retirement (ER) funding motivation sheet (National Treasury MS Excel Spreadsheet)

c. Human Resource Budget Plan (HRBP) or equivalent (i.e. funded approved posts list)

d. Any other relevant appendices from department, e.g. Human Resource (HR) plans and Service Delivery Improvement Plans (SDIPs)

4.5 These applications for funding will be assessed during the course of the budget process.

4.6 For more information please refer to the guidelines on early retirement and criteria for funding issued by the DPSA, available at http://www.dpsa.gov.za/article.php?id=827.

5 Headcount Management

5.1 Departments are expected to manage their headcount within the allocated ceilings. Only critical and core service delivery posts should be prioritized within the allocated budget. Vacant posts that have not gone through the job evaluation process in the past five years should be evaluated, this will assist in determining the relevance of the post.

5.2 Management decisions have to be taken with regards to headcount management. Exit strategy options have been provided for in the HRBP tool to assist managers with the management of headcount.

5.3 Reductions in headcount and associated savings as a result of exits through early retirement without penalisation must be accurately reflected on the HRBP both as part of the headcount reduction strategies and the relevant programme(s).

5.4 Monthly monitoring of the filling of posts is expected from Departments to avoid filling unfunded posts.

6 Human Resource Budget Plan (HRBP)

6.1 The HRBP remains the primary planning tool for preparation of compensation budgets and headcount management.

6.2 The HRBP in the format provided by the National Treasury, presents key changes to the department's personnel profile in how human resources will be managed for service delivery, within the set ceiling. The HRBP is a compulsory template that must be submitted with the budget submission as there is no personnel sheet to complete.

6.3 It is crucial that the HR and Finance personnel work together on the population of the tool, taking all the requirements of the guidelines into consideration. Senior management must take final decisions to approve the contents of the HRBP.

6.4 The HRBP is pre-loaded with compensation budget ceilings. Departments must remain within set ceilings through implementation of headcount management strategies. Institutions experiencing serious underlying pressures which may compromise achievement of set budget ceilings should still have their HRBPs balanced but provide an explanation of the extent of additional pressures and their implications in a narrative.

6.5 The narrative referred to above should indicate the number of posts that cannot be provided for within the compensation ceiling, distinguishing between posts that are already filled and those the department plans to fill. The details should be provided per salary level per occupation, including implications of not filling such posts for service delivery.

7 Technical Issues

7.1 In 2018, departments were asked to finalise their MTEF plans within the compensation budget limit and consequently to plan their establishment numbers by programme and salary level. Thus, the finalised personnel information provided in the 2019 ENE now needs to be updated for the 2020 MTEF years.

7.2 New estimates must be generated for the 2022/23 financial year through the HRBP workbook – the 2022/23 compensation budget limit should not exceed a 4.8 per cent increase on the 2021/22 compensation budget limit, unless a higher increase can be afforded due to savings effected within the set compensation ceilings.

7.3 The departments are expected to:

7.3.1 Correct the breakdown of the currently employed headcount, expenditure and the unit cost stated in the HRBP if the department is not in agreement with the data from the PERSAL system.

7.3.2 Indicate all vacancies within a department planned to be filled in the current financial year and/or over the MTEF period. Plans to fund and fill any vacancies should prioritise core and critical non-core posts.

7.3.3 Provide headcount management proposals indicating strategies to reduce headcount as indicated in the HRBP and DPSA guidelines.

7.3.4 Institutions should actively manage down costs associated with awarding performance bonuses, notch increases and overtime.

7.3.5 The HRBP must be submitted as part of the MTEC documentation submission and will be evaluated as part of the 2020 budget process.

7.4 Institutions must ensure alignment between compensation of employees budgets and personnel headcount. Unrealistic submissions with evidence of poor attempt at managing costs downwards, will be returned to the departments for further engagement.

7.5 The 2020 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 2019 MTEF or where departments have effected savings within their compensation budgets.

7.6 Effective management of work that is outsourced to consultants is also important. Consultants should not be hired to do the 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. Institutions should ensure that the following are taken into account when budgeting for compensation of employees:

7.6.1 Ministerial determinations and directives (e.g. those issued by Minister for Public Service and Administration) (Available on the DPSA website)

7.6.2 Public Service Co-ordinating Bargaining Council (PSCBC) agreements (Available on the DPSA website)

7.6.3 Cabinet decisions relating to remuneration and personnel management matters and expansion of mandates

7.7 Actual expenditure figures on filled posts must be extracted from the pay-roll system (such as PERSAL, PERSOL, SAP, etc.) for each item of payments per salary level and programme.

7.8 To cost personnel budgets in the HRBP, refer to the HELP and Assumptions sheet in the HRBP. The HRBP applies the following escalation factors:

TABLE 1: COLA ESCALATION FACTORS (LEVEL 1 to 7 and OSD)

PAYMENT ITEM	2019/20	2020/21	2021/22	2022/23
S&W: BASIC SALARY	6.2%	6.1%	6.0%	5.8%
S&W:HOUSING ALLOWANCE	4.7%	5.1%	5.0%	4.8%
S&W:OVERTIME (user adjustable)	6.2%	6.1%	6.0%	5.8%
EMPL CONTR:MEDICAL	8.6%	7.6%	7.5%	7.3%
EMPL CONTR:PENSION	6.2%	6.1%	6.0%	5.8%
S&W:PERFORMANCE BONUS (user adjustable)	6.2%	6.1%	6.0%	5.8%
ALL OTHER	6.2%	6.1%	6.0%	5.8%

TABLE 2: COLA ESCALATION FACTORS (LEVEL 8 to 10 and OSD)

PAYMENT ITEM	2019/20	2020/21	2021/22	2022/23
S&W: BASIC SALARY	5.7%	5.6%	5.5%	5.3%
S&W:HOUSING ALLOWANCE	4.7%	5.1%	5.0%	4.8%
S&W:OVERTIME (user adjustable)	5.7%	5.6%	5.5%	5.3%
EMPL CONTR:MEDICAL	8.6%	7.6%	7.5%	7.3%
EMPL CONTR:PENSION	5.7%	5.6%	5.5%	5.3%
S&W:PERFORMANCE BONUS (user adjustable)	5.7%	5.6%	5.5%	5.3%
ALL OTHER	5.7%	5.6%	5.5%	5.3%

TABLE 3: COLA ESCALATION FACTORS (MMS and OSD)

PAYMENT ITEM	2019/20	2020/21	2021/22	2022/23
S&W: BASIC SALARY	5.2%	5.1%	5.0%	4.8%
S&W:HOUSING ALLOWANCE	5.2%	5.1%	5.0%	4.8%
S&W:OVERTIME (user adjustable)	5.2%	5.1%	5.0%	4.8%
EMPL CONTR:MEDICAL	5.2%	5.1%	5.0%	4.8%
EMPL CONTR:PENSION	5.2%	5.1%	5.0%	4.8%
S&W:PERFORMANCE BONUS (user adjustable)	5.2%	5.1%	5.0%	4.8%
ALL OTHER	5.2%	5.1%	5.0%	4.8%

TABLE 4: COLA ESCALATION FACTORS (SMS)

PAYMENT ITEM	2019/20	2020/21	2021/22	2022/23
S&W: BASIC SALARY	5.2%	5.1%	5.0%	4.8%
S&W:HOUSING ALLOWANCE	5.2%	5.1%	5.0%	4.8%
S&W:OVERTIME (user adjustable)	5.2%	5.1%	5.0%	4.8%
EMPL CONTR:MEDICAL	5.2%	5.1%	5.0%	4.8%
EMPL CONTR:PENSION	5.2%	5.1%	5.0%	4.8%
S&W:PERFORMANCE BONUS (user adjustable)	5.2%	5.1%	5.0%	4.8%
ALL OTHER	5.2%	5.1%	5.0%	4.8%

7.9 The HRBP automatically takes the progression factors into account. Progression does not apply to housing and medical allowances, union's membership fees, bargaining chamber contributions or Unemployment Insurance Fund contributions.

7.10 The following progression rates have not been affected by Resolution 1 of 2018:

7.10.1 Defence: 4% every two years; and

7.10.2 All other sectors: 1.5% every year.

7.11 Progression rates applicable to each of the sectors are divided by the applicable number of years to yield *effective progression factors*[1] for each year. The following table shows the annual effective progression factors to be applied to each item of payment.

TABLE 5: EFFECTIVE PROGRESSION FACTORS (APPLIED TO EVERY YEAR OF THE 2020 MTEF)

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

7.12 Public Entities are not expected to populate the HRBP as they will be expected to populate the personnel sheet in the public entities database.

[1] 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 5.