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 2022 MEDIUM TERM EXPENDITURE FRAMEWORK (MTEF)

National Treasury

July 2021

1 Introduction

1.1 Institutions are expected to adhere to the set compensation ceilings during the 2022 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.

1.3 Given the effect of the current global Covid-19 pandemic on the economy and already deteriorating State resources, it is necessary for departments to contribute towards maintaining the current wage bill ceilings, particularly during these unfavourable economic and fiscal circumstances.

1.4 The 2022 MTEF process prioritizes expenditure budgets towards areas that stimulates economic growth. Institutions are encouraged to implement stringent compensation containment measures such as the active management of performance bonuses in line with relevant DPSA circulars, management of overtime payments and pay and grade progression, where possible. NO additional funding will be made available, and any compensation of employees' budget pressures would have to be funded from within the departments' compensation budget baseline.

2 Wage Agreement

2.1 The current single term 2021 wage agreement was signed in July 2021 by the majority of Labour Unions. The agreement is implemented with effect from 1 April 2021 and allows for the adjustment and improvements to conditions of service for employees for the 2021/22 financial year.

2.2 The 2021 wage agreement essentially comprises two components:

6.3.1 A non-pensionable cash allowance based on a sliding scale for public service employees on salary levels 1 to 12 backdated from 1 April 2021.

6.3.1 A pensionable increase of at least 1.5% for public service employees on salary levels 1 to 12 who did not qualify for pay progression in respect of the applicable performance cycle, including those employees on the maximum notch of their salary levels backdated to 1 July 2021.

2.3 The current 2021 wage agreement is available for download from the DPSA website.

Inflation projections

2.3.1 The below inflation parameters have been updated with the latest projections from National Treasury's forecasts. These projections have been updated in the HRBP tool which is required for submission. Departments are requested to focus on management of headcounts based on these CPI projections when completing the HRBP tool.

Index Parameter	2021/22	2022/23	2023/24	2024/25
CPI projection	4.4%	4.2%	4.5%	4.5%

Cost-of-living adjustment

2.3.2 The cost-of-living adjustment in 2021/22 is contained in the table below:

Salary Level	Non-pensionable Cash Gratuity	Pensionable Increase*
1	R 1 220	1.5%
2	R 1 220	1.5%
3	R 1 220	1.5%
4	R 1 220	1.5%
5	R 1 220	1.5%
6	R 1 352	1.5%
7	R 1 352	1.5%
8	R 1 450	1.5%
9	R 1 450	1.5%
10	R 1 640	1.5%
11	R 1 640	1.5%
12	R 1 695	1.5%

** The pensionable increase of 1.5% for public service employees is only applicable to those employees who did not qualify for pay progression in respect of the applicable performance cycle, including those employees on the maximum notch of their salary levels backdated to 1 July 2021.*

2.3.3 The cost-of-living adjustment for employees on salary levels 1 to 12 over the 2022 MTEF is as follows:

- 0% in 2022/23
- 0% in 2023/24
- CPI in 2024/25

Note: The above projections serve as a guide for the costing of compensation ceilings and are subject to any future wage agreements which may need to be additionally incorporated into the compensation ceilings over the 2022 MTEF period.

Medical Subsidy

2.3.4 The actual increase of the medical subsidy is 8.51% for the 2021 calendar year. Medical subsidy projections are based on the Medical Price Index (MPI), which is approximated at CPI + 4.0%.

The following are relevant parameters for compensation budgeting purposes:

- 8.51% in 2021/22
- CPI + 4.2% in 2022/23
- CPI + 3.9% in 2023/24
- CPI + 4.0% in 2024/25

Housing Allowance

2.3.6 An increase of Housing Allowance by projected CPI inflation each year is estimated at:

- R1500.07 in 2021/22
- CPI in 2022/23
- CPI in 2023/24
- CPI in 2024/25

Performance bonus

2.3.6 Performance bonus directives are contained in DPSA circulars obtainable from: http://www.dpsa.gov.za/dpsa2g/documents/rp/2019/18_1_p_30_01_2019.pdf. The following thresholds are applicable to payment of performance bonuses as a proportion of the wage bill:

- 0% in 2021/22
- 0% over the 2022 MTEF period

Escalation factors for SMS

2.3.9 Escalation factors applicable to Middle Management Services (MMS) and Senior Management Services (SMS) are detailed in Table 2 below.

Progression rates

2.3.10 Progression factors are detailed in Table 3 below.

3 Funding of Wage Agreement Costs

3.1 No additional funding will be made available to directly fund costs associated with compensation of employees' budget pressures. Departments are expected to remain within compensation ceilings provided both in-year and over the 2022 MTEF.

3.2 Despite the current assumptions as outlined in this guide for the costing of compensation ceilings, departments should be cognisant of the implications of any future wage agreements. Any wage resolutions agreed upon within the Public Service Coordinating Bargaining Council will need to be incorporated into the compensation of employees' ceilings.

3.3 Departments will be kept informed on developments of the public service wage bill management strategy. This process is a joint effort between the National Treasury and the DPSA to deal with the unsustainable and ballooning public service wage bill. The strategy generally entails public service personnel expenditure reviews focusing on the major cost drivers as well as potential cost saving mechanisms to curb the rising public service wage bill.

3.4 Institutions are also 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, institutions are urged to consult the DPSA directly.

4 Headcount Management

4.1 Current staff establishments in the public service are no longer affordable. This is largely as a result of fast growth in earnings of public servants over the past decade and poor economic and fiscal performance South Africa currently faces.

4.2 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.

4.3 Management decisions have to be taken with regards to headcount management. Appointment and separation strategy options have been provided for in the HRBP tool to assist managers with the management of headcount.

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

5 Human Resource Budget Plan (HRBP)

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

5.2 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 set compensation ceilings. The HRBP is a compulsory template that must be submitted with the budget submission as there is no personnel sheet to complete.

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

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

5.5 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.

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

6 Technical Issues

6.1 Departments need to finalise their 2022 MTEF plans within the compensation budget limits and consequently to plan their establishment numbers by programme and salary level.

Thereafter, the finalised personnel information provided in the HRBP should feed directly into 2022 ENE workbook for the 2022 MTEF period.

6.2 New estimates must be generated for the 2024/25 financial year through the HRBP tool – the 2024/25 compensation budget limit has been adjusted by projected CPI in relation to the 2023/24 compensation budget limit. This compensation budget limit should be observed and cannot be breached. Breaching the compensation budget limit amounts to financial misconduct and will attract relevant sanctions.

6.3 Departments are expected to:

6.3.1 Apply the breakdown of the currently employed Full-Time-Equivalent (FTE) headcount, expenditure, and the unit cost in the HRBP if the department is not in agreement with the data from the PERSAL system.

6.3.2 Indicate all vacancies within a department that are 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.

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

6.3.4 Indicate the costs of once-off payments or cash gratuities separately as provided for in the HRBP tool within particular financial years. The unit costs for each salary level are inclusive of these costs.

6.3.5 Submit the HRBP tool as part of the MTEC documentation submission after which it will be evaluated as part of the 2022 budget process.

6.4 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 relevant institutions for further engagement.

6.5 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 measures are taken into account when budgeting for compensation of employees:

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

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

6.5.3 General Public Service Sector Co-ordinating Bargaining Council (GPSSCBC) agreements (Available on the DPSA website).

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

6.6 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.

6.7 To cost personnel budgets in the HRBP tool, refer to the “HELP” and “Assumptions” sheet in the HRBP tool. The HRBP tool incorporates the following escalation factors:

TABLE 1: COLA ESCALATION FACTORS (LEVEL 1 to 12 - OSD AND NON-OSD NOT ON TCE)

PAYMENT ITEM	2021/22	2022/23	2023/24	2024/25
S&W:BASIC SALARY	0%	0%	0%	0%
S&W:HOUSING ALLOWANCE	CPI	CPI	CPI	CPI
S&W:OVERTIME	0%	0%	0%	0%
EMPL CONTR:MEDICAL	8.51%	CPI + 4.2%	CPI + 3.9%	CPI + 4.0%
EMPL CONTR:PENSION	0%	0%	0%	0%
S&W:PERFORMANCE BONUS	0%	0%	0%	0%
S&W:SERVICE BONUS	0%	0%	0%	0%
ALL OTHER	CPI	CPI	CPI	CPI

TABLE 2: COLA ESCALATION FACTORS (MMS ON TCE, SMS INCLUDING OSD AND NON-OSD)

PAYMENT ITEM	2020/21	2021/22	2022/23	2023/24
S&W:BASIC SALARY	0%	0%	0%	0%
S&W:HOUSING ALLOWANCE	0%	0%	0%	0%
S&W:OVERTIME	0%	0%	0%	0%
EMPL CONTR:MEDICAL	0%	0%	0%	0%
EMPL CONTR:PENSION	0%	0%	0%	0%
S&W:PERFORMANCE BONUS	0%	0%	0%	0%
S&W:SERVICE BONUS	0%	0%	0%	0%
ALL OTHER	CPI	CPI	CPI	CPI

6.8 The HRBP tool automatically considers the progression factors. Progression does not apply to housing and medical allowances, union’s membership fees, bargaining chamber contributions or Unemployment Insurance Fund contributions.

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

TABLE 3: EFFECTIVE PROGRESSION FACTORS (APPLIED IN-YEAR AND OVER THE 2022 MTEF)

PAYMENT ITEM	ALL OTHER DEPARTMENTS	DEFENCE
Basic salary	1.5%	2.0%
S&W: Non pensionable	1.5%	2.0%
Overtime payments	1.5%	2.0%
Employer contribution: Pension	1.5%	2.0%
Performance bonus	1.5%	2.0%
Service bonus	1.5%	2.0%
Leave discounting	1.5%	2.0%
Periodic payments	1.5%	2.0%
Capital remuneration	1.5%	2.0%
Circumstantial remuneration	1.5%	2.0%
All Other	0%	0%

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