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 2021 MEDIUM TERM EXPENDITURE FRAMEWORK (MTEF)

National Treasury

August 2020

1 Introduction

1.1 Institutions are expected to adhere to the set compensation ceilings during the 2021 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 Public servants have over the past decade enjoyed salary adjustments generally above inflation. In addition, government employees enjoy benefits and incentives, which added to faster growth in overall earnings. As a result, the share of compensation spending to total government consolidated spending has increased. While government recognises that all its employees should be fairly remunerated, it is obligated to balance compensation demands with the broader needs of society. Also given the effect of the current global pandemic on the economy and already deteriorating State resources, it is necessary for departments to contribute towards reducing the wage bill, more so during these unfavourable economic and fiscal circumstances.

1.4 The 2021 MTEF process aims to change the composition of spending towards spending that stimulates economic growth. Institutions are encouraged to implement stringent compensation containment measures such as early retirement without penalisation, active management of performance bonuses in line with relevant DPSA circulars, as well as active management of overtime payments and progression, where possible. Any additional compensation of employees' budget pressures would have to be funded from within the departments' compensation budget baseline.

2 Wage Agreement

2.1 The current 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 published by the National Treasury.

2.2 The 2020/21 last leg of the agreement has not been implemented and is currently under arbitration after conciliation failed. Failure to implement the last leg of PSCBC Resolution 1 of 2018 has also been subjected to litigation at the Labour Court. It is expected that the case at the Labour Court will be heard after arbitration processes have been concluded.

2.3 For the purposes of the current budget process, the following parameters are relevant for compiling personnel budgets:

Inflation projections

2.3.1 Inflation projections are not yet available for the 2021 MTEF. Inflation parameters in the HRBP and the Early Retirement Motivation Tool have this been set to zero. Departments are requested to focus on management of headcount for each of the items of compensation budgets in completing compensation budgeting tools. Inflation parameters will be updated as soon as they are available.

Cost of living adjustments

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

- 0% for salary levels 1-7
- 0% for salary levels 8-10
- 0% for salary levels 11-12

2.3.3 The cost-of-living adjustment in 2021/22 is as follows:

- 0% for salary levels 1-12

2.3.4 The cost-of-living adjustment in 2022/23 is as follows:

- 0% for salary levels 1-12

2.3.5 The cost-of-living adjustment in 2023/24 is as follows:

- 0% for salary levels 1-12

Medical Allowance

2.3.5 The actual increase of medical allowance is 8.1% for 2020 calendar year. Medical allowances projections are based on Medical Price Index (MPI), which is normally approximated at CPI + 2.5%. The following are relevant parameters for compensation budgeting purposes:

- 8.1% in 2020/21
- CPI + 2.5% in 2021/22
- CPI + 2.5% in 2022/23
- CPI + 2.5% in 2023/24

Housing Allowance

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

- R1456.94 in 2020/21
- CPI in 2021/22
- CPI in 2022/23
- CPI in 2023/24

Performance bonus

2.3.6 Performance bonus outlays are limited by DPSA circular 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:

- 2019/2020 = 0,75%
- 2020/2021 = 0,5%
- 2021/2022 = 0% (including subsequent financial years)

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 implementing the last leg of PSCBC Resolution 1 of 2018. No adjustment to salaries should be effected in 2020/21. Departments are expected to remain within compensation ceilings provided both in-year and over the 2021 MTEF.

3.2 Institutions 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, institutions are urged to consult the DPSA directly.

4 Funding for Early Retirement without Penalisation

4.1 For the 2019 MTEF, applications for funding of costs of early retirement without penalisation needed to be submitted as part of the budget request submissions for 2019. The closing date for central funding of these applications was the end of September 2019. Most of the applications that were submitted have been processed through the Central Assessment Committee (CAC) with only a few pending finalisation.

4.2 It is to be noted that the Technical Committee on Finance (TCF) meeting held on 19 June 2020 has taken a decision to the effect that provincial early retirement cases should be processed and funded at the provincial sphere.

4.3 The process of funding early retirement costs will no longer be centralised. Institutions are, therefore, requested to utilise the prescribed process in terms of section 16(6) of the Public Service Act, 1994. In terms of this section, the Executive Authority takes final decision with respect to approval and funding of early retirement applications. Henceforth, all new applications for funding of costs related to early retirement will be processed through the regular budget process within the relevant sphere of government. Guidelines for processes to be followed in applying for central funding of exit-related costs are obtainable at the following link: (http://www.dpsa.gov.za/article.php?id=827).

4.4 Where departments do not have adequate funds in the baseline to meet exit-related costs associated with approved early retirement cases, a request for funding can be made for consideration within the relevant function group. In this case, any additional allocations to a department will need to be funded from reductions from other departments within the function group, or from other department's budget in other function groups.

4.5 Where departments submit requests for funding of early retirement exit-related costs through the budget process to the relevant function group leader, they are required to complete the Early Retirement Funding Motivation Tool accessible from the following link: http://www.treasury.gov.za/publications/guidelines/default.aspx, which contains detailed instructions to be followed for completion including all documents to be attached thereto. The completed Early Retirement Funding Motivation Tool is to be submitted together with the MTEF database and the HRBP. Documents to be attached to the Early Retirement Funding Motivation Tool are also detailed in the DPSA Early Retirement Guidelines obtainable from the following link: http://www.dpsa.gov.za/article.php?id=827.

4.6 As was the case with the centralised early retirement programme, departments are required to achieve at least 50 per cent savings threshold over the 2021 MTEF. It is important to ensure that information detailed in the Early Retirement Funding Motivation Tool is also captured in the HRBP, ensuring that the department remains within the set compensation budget ceilings.

4.7 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 Funding Motivation Tool (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)

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

4.9 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.

4.10 Departments whose applications for central funding of early retirement-related exit costs were approved during the 2019/20 process should detail associated requests for funding of capped leave costs in the 2021 MTEC Submission workbook.

4.11 Departments whose early retirement applications for central funding were approved during the 2019/20 process are hereby advised that funds associated with ER 50 per cent savings claw back have already been effected on their respective compensation ceilings.

5 Headcount Management

5.1 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.

5.2 Further headcount management policy considerations in addition to ER are currently being explored between government and relevant social partners. A major consideration is that headcount management considerations should serve to improve cost-effectiveness and enhance service delivery. Departments will be advised of progress in this regard.

5.2 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.

5.3 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.

5.4 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).

5.5 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 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.

6.3 It is crucial that the HR and Finance personnel work together in populating the tool, taking all 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 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.

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.

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

7 Technical Issues

7.1 In the past, 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 2020 ENE now needs to be updated for the 2021 MTEF years.

7.2 New estimates must be generated for the 2023/24 financial year through the HRBP workbook – the 2023/24 compensation budget limit has been adjusted downward in relation to the 2022/23 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.

7.3 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. This year's HRBP provides for uploading the previous version of the HRBP if the latter is a better reflection of the department's position with respect to compensation management plans.

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 Actively manage down costs associated with awarding performance bonuses, notch increases and overtime.

7.3.5 The HRBP, together with the Early Retirement Funding Motivation Tool, where relevant, must be submitted as part of the MTEC documentation submission and will be evaluated as part of the 2021 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 relevant institutions for further engagement.

7.5 The 2021 MTEF indicative baseline does not provide for general funding of new posts, except in cases where institutions were specifically allocated funding to create new critical posts in the 2020 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 measures are taken into account when budgeting for compensation of employees:

7.6.1 Ministerial determinations and directives (e.g. those issued by Minister for the 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 12 - OSD and non-OSD not on TCE)

PAYMENT ITEM	2020/21	2021/22	2022/23	2023/24
S&W: BASIC SALARY	0%	0%	0%	0%
S&W:HOUSING ALLOWANCE	4.19%	CPI	CPI	CPI
S&W:OVERTIME (user adjustable)	0%	0%	0%	0%
EMPL CONTR:MEDICAL	8.1%	CPI + 2.5%	CPI + 2.5%	CPI + 2.5%
EMPL CONTR:PENSION	0%	0%	0%	0%
S&W:PERFORMANCE BONUS (user adjustable)	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 (user adjustable)	0%	0%	0%	0%
EMPL CONTR:MEDICAL	0%	0%	0%	0%
EMPL CONTR:PENSION	0%	0%	0%	0%
S&W:PERFORMANCE BONUS (user adjustable)	0%	0%	0%	0%
ALL OTHER	CPI	CPI	CPI	CPI

7.9 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.

7.10 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.

[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 3.

TABLE 3: EFFECTIVE PROGRESSION FACTORS (APPLIED IN-YEAR AND OVER THE 2021 MTEF)

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

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