



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

PUBLIC ENTITY 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

September 2021

1. Introduction

- 1.1. While public entities across national and provincial spheres of government have not implemented explicit compensation ceilings, National Treasury considers it prudent that they adopt and adhere to all central instructions relating to compensation management and associated cost savings measures.
- 1.2. As with departments at the national sphere of government, public entities are also expected to manage and monitor implementation of compensation budgets and headcount numbers with the view to identify sources of cost pressures so that corrective measures can be taken.
- 1.3. These guidelines provide additional information and guidance applicable to Public Entities over and above the generic requirements applicable to departments.

2. Wage Agreements

Public Service Wage Agreements

- 2.1. It is important to note that the public entities are not obligated under any legal framework to implement the same public service wage resolutions emanating from the Public Sector Coordinating Bargaining Chamber (PSCBC). However, given the current economic situation of the country it would be prudent for Public Entities to take cognisance of public service wage agreements and implement similar measures so that public entities are still able to deliver on their mandate. Careful consideration of financial implications should be taken into account with regards to any remuneration policy increases as these will have carry-through costs and will impact on the availability of future budgets for service delivery over the medium term. Although Public Entities have autonomy in terms of their remuneration policy decisions, it is a matter of principle to effect cost containment measures and contribute towards economic sustainability especially given the current economic outlook.

2021 Public Service Wage Agreement

- 2.2. The current single term 2021 wage agreement for departments at the national and provincial spheres of government was signed in July 2021 by the majority 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.
- 2.3. The 2021 wage agreement essentially comprises two components:
 - 2.3.1. A non-pensionable cash gratuity based on a sliding scale for public service employees on salary levels 1 to 12 backdated from 1 April 2021
 - 2.3.2. A pensionable increase of 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 from 1 July 2021.

- 2.4. As with decisions that have been taken with respect to Public Service Act employees, all public entities are advised to engage with Labour at respective sectoral bargaining councils to align salary adjustments both in-year and over the 2022 MTEF considering the economic and fiscal challenges the country faces.
- 2.5. In view of the above, and for the purposes of the current budget process, the following indicative parameters are relevant for compiling compensation budgets for public entities:

Inflation projections

- 2.5.1. The below Inflation parameters have been updated with the latest projections from National Treasury's forecasts.
- 2.5.2. Public Entities must apply their discretion when using these assumptions, taking into consideration Covid-19 restrictions, especially in 2022/23. If the outcomes are different from the forecasted estimates, institutions will need to absorb any resultant differences within their budget baselines. Discretion cannot be applied to compensation of employees as it is subject to another process.

Index Parameter	2021/22	2022/23	2023/24	2024/25
CPI projection	4.4%	4.23%	4.45%	4.49%

Cost-of-living adjustment (where applicable)

- 2.5.3. As per the 2021 wage agreement and public entity-specific remuneration policies.

Medical Allowance (where applicable)

- 2.5.4. As per the relevant sectoral wage agreements and public entity-specific remuneration policies.

Housing Allowance (where applicable)

- 2.5.5. As per the relevant sectoral wage agreements and public entity-specific remuneration policies.

Performance bonus (where applicable)

- 2.5.6. As per the relevant sectoral wage agreements and public entity-specific remuneration policies.

Progression rates (where applicable)

- 2.5.7. Progression factors are as per the relevant sectoral wage agreements and public entity-specific remuneration policies.

Recommended escalation factors for senior managers (where applicable)

- 2.5.8. Escalation factors applicable to non-senior managers not on Total Cost to Employer (TCE) are detailed in Table 3.

TABLE 3: COLA ESCALATION FACTORS - NON-SENIOR MANAGERS 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	As per public entity-specific remuneration policies			
S&W:OVERTIME	0%	0%	0%	0%
EMPL CONTR:MEDICAL	As per public entity-specific remuneration policies			
EMPL CONTR:PENSION	0%	0%	0%	0%
S&W:PERFORMANCE BONUS	0%	0%	0%	0%
ALL OTHER	CPI	CPI	CPI	CPI

Recommended escalation factors for senior managers (where applicable)

2.5.9. Escalation factors applicable to senior managers are detailed in Table 4.

TABLE 4: COLA ESCALATION FACTORS FOR SENIOR MANAGEMENT

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%
ALL OTHER	CPI	CPI	CPI	CPI

3. Public Entities Personnel Information

- 3.1. No changes have been effected to the National Public Entities Personnel sheet. Information relating to completion of the database are contained therein.
- 3.2. Public Entities experiencing serious underlying pressures which may compromise their ability to remain within compensation budgets should still have their personnel databases balanced but provide an explanation of the extent of additional pressures and their implications in a narrative.
- 3.3. It is crucial that the HR and Finance personnel work together in populating the personnel database, taking all requirements of the guidelines into consideration. Senior management must take final decisions to approve the contents of the database.
- 3.4. The narrative referred to above should indicate the number of posts that cannot be provided for within available compensation budgets, distinguishing between posts that are already filled and those they plan to fill. The details should be provided per salary grade, including implications of not filling such posts for service delivery.

4. Technical Issues

- 4.1. Public Entities must ensure alignment between compensation of employees' budgets and personnel headcount. Unrealistic submissions with evidence of poor attempt at managing costs downwards amount to non-compliance.
- 4.2. The 2022 MTEF indicative baseline does not provide for general funding of new posts, except in cases where individual public entities were specifically allocated funding to create new critical posts in the 2021 MTEF or where public entities have effected savings within their compensation budgets.
- 4.3. 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 Public Entities (i.e. all personnel in Public Entities should be fully utilised to avoid unnecessary use of consultants). Public Entities should ensure that the following are taken into account when budgeting for compensation of employees:
 - 4.3.1. Any relevant Ministerial determinations and directives
 - 4.3.2. Sectoral bargaining councils' agreements – where relevant
 - 4.3.3. Cabinet/Relevant Provincial Executive Council decisions relating to remuneration and personnel management matters and expansion of mandates
 - 4.3.4. Any relevant Treasury circulars

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