

# GUIDELINES FOR COSTING AND BUDGETING FOR COMPENSATION OF EMPLOYEES

FOR THE PREPARATION  
OF EXPENDITURE ESTIMATES  
FOR THE 2023 MEDIUM TERM  
EXPENDITURE FRAMEWORK (MTEF)



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA



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## 1 Introduction

- 1.1 Institutions are expected to adhere to the set compensation ceilings during the 2023 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 This will require careful management and oversight with regards to the filling of both critical and non-critical posts within their establishments while remaining within budget and still delivering on their mandates.
- 1.3 Given the current economic circumstances and the limited State resources, it is critical for departments and other public institutions to contribute towards containing the public sector wage bill.
- 1.4 The 2023 MTEF process prioritizes expenditure budgets towards areas that stimulates economic growth. Institutions are encouraged to implement stringent compensation containment measures such as the application of the incentive policy framework and other relevant DPSA circulars, including management of overtime payments and progression, where possible.

## 2 Public Service Labour Summit

- 2.1 The Public Service Labour Summit on collective bargaining, was held at Emperors Palace Conference Centre in Gauteng, from 28 to 31 March 2022. The parties involved gathered for this summit under the theme *“Strengthening and defending centralised collective bargaining to advance economic development, social justice, a capable and developmental state, labour peace and the democratisation of the workplace.”*
- 2.2 This purpose of the summit in principle required parties in the Public Sector Coordinating Bargaining Council (PSCBC) to develop and strengthen collective bargaining to underline the importance of the characteristics of a developmental state
- 2.3 It was agreed in summit that for future negotiations the employer will be required to issue a certificate of compliance to guarantee that all legal processes have been followed and that sufficient funding would be available for the implementation of collective wage agreements. These requirements are in line with the Public Service Act, 1994 and Regulations 78 and 79 of the Public Service Regulations, 2016.
- 2.4 It was also agreed that parties will work towards the alignment and the timing of the annual budget process, with the PSCBC wage negotiations process to ensure that the final budget envelope on compensation of employees reflects the signed council’s wage agreement.

## 3 Wage Agreements

- 3.1 The 2021 Wage Agreement was implemented with effect from 01 April 2021 and allowed for the adjustment and improvements to conditions of service for employees for the 2021/22 financial year. However, “clause 3.3” of the same wage agreement allows for

the continuation of the non-pensionable cash gratuity into the current financial year until a new wage agreement has been reached between parties within the PSCBC for 2022/23.

3.2 The continuation of the non-pensionable cash gratuity is only applicable for salary levels 1 to 12 effective from 01 April 2022 until a new wage agreement is reached.

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

### **Inflation projections**

3.3.1 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 projections when completing the HRBP tool.

<b>Index Parameter</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
CPI projection	4.42%	4.45%	4.48%

3.3.2 Government and labour are working on aligning future wage agreements with the budget process. Until this process is concluded, the cost-of-living adjustment for employees on salary levels 1 to 12 over the 2023 MTEF should in the interim be budgeted as follows:

- 0% in 2023/24
- CPI in 2024/25
- 0% in 2025/26

***Note: The above projections serve as a guide for the costing of compensation ceilings by departments. They are not meant to pre-empt the outcome of future wage settlements in the PSCBC over the 2023 MTEF period. These negotiated wage settlements will help determine the final compensation ceilings.***

### **Medical Allowance**

3.3.3 The actual increase of medical allowance is estimated at CPI + 4% for 2022 calendar year. Medical allowances projections are based on Medical Price Index (MPI). The following are relevant parameters for compensation budgeting purposes:

- 8.53% in 2022/23
- CPI + 4% in 2023/24
- CPI + 4% in 2024/25
- CPI + 4% in 2025/26

## **Housing Allowance**

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

- 4.53% in 2022/23
- CPI in 2023/24
- CPI in 2024/25
- CPI in 2025/26

## **Performance bonus**

3.3.5 Performance bonus directives are only applicable in terms of the latest Incentive Policy Framework for Employees in the Public Service. These and other relevant circulars by the DPSA are obtainable from: [http://www.dpsa.gov.za/dpsa2g/documents/rp/2019/18\\_1\\_p\\_30\\_01\\_2019.pdf](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 2022/23 including subsequent financial years

3.3.6 In terms of Regulation 73(1) of the 2016 Public Service Regulations (PSR), each Executive Authority (EA) shall establish a performance incentive scheme to reward employees or categories of employees in his or her department(s) within the limits determined by the Minister for the Public Service and Administration in terms of Sub-regulation 73(3) and (4) of the PSR, 2016, as contained or stipulated in the 2019 Incentive Policy Framework.

3.3.7 The 2019 Incentive Policy Framework for Employees in the Public Service is clear on the matter of performances bonuses or any other performance related incentives (i.e. cash vouchers, etc) from 2022/23 onwards. EAs cannot exceed the threshold or limit provided in the latest incentive policy framework document.

## **Escalation factors for SMS and MMS members**

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

## **Progression rates**

3.3.9 Progression factors are detailed in Table 3 below.

# **4 Headcount Management**

4.1 The costs of current staff establishments in the public service have increased significantly. This is largely as a result of the fast growth in earnings of public servants over the past decade and poor economic and fiscal performance South Africa currently faces.

- 4.2 Institutions are expected to manage their headcount within the allocated compensation ceilings. Only critical and core service delivery posts should be prioritized within the allocated budget.
- 4.3 Departments are encouraged to thoroughly explore strategies available for headcount management as provided in various circulars and policy documents issued by the DPSA. Appointments 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 filling of posts and the costs thereof is crucial for 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. National Treasury will be working with Provincial Treasuries in the 2023 MTEF for a full rollout of the HRBP tool in provincial departments.

## **6 Technical Issues**

- 6.1 Departments need to finalise their 2023 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 2023 ENE workbook for the 2023 MTEF period.

- 6.2 New estimates must be generated for the 2025/26 financial year through the HRBP tool – the 2025/26 compensation budget limit has been adjusted by inflationary projects as outline in section 3.3 above. This compensation budget limit 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. This year’s HRBP provides preloaded information of the HRBP tool so as to provide a baseline to be assessed by the department.
  - 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 submissions and will be evaluated as part of the 2023 budget process.
- 6.4 Institutions must ensure alignment between compensation 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 (i.e., all personnel in institutions should be fully utilised where possible 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 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: INTERIM COLA ESCALATION FACTORS (LEVEL 1 to 10 - OSD AND NON-OSD NOT ON TCE )**

PAYMENT ITEM	2023/24	2024/25	2025/26
S&W:BASIC SALARY	0%	CPI	0%
S&W:HOUSING ALLOWANCE	CPI	CPI	CPI
S&W:NON PENSIONABLE ALL OTH(RES)	0%	CPI	0%
S&W:OVERTIME	0%	CPI	0%
EMPL CONTR:MEDICAL	CPI + 4%	CPI + 4%	CPI + 4%
EMPL CONTR:PENSION	0%	CPI	0%
ALL OTHER	CPI	CPI	CPI

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

PAYMENT ITEM	2023/24	2024/25	2025/26
S&W:BASIC SALARY	0%	CPI	0%
S&W:HOUSING ALLOWANCE	0%	CPI	0%
S&W:NON PENSIONABLE ALL OTH(RES)	0%	CPI	0%
S&W:OVERTIME	0%	CPI	0%
EMPL CONTR:MEDICAL	0%	CPI	0%
EMPL CONTR:PENSION	0%	CPI	0%
ALL OTHER	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<sup>1</sup> 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 2023 MTEF)**

PAYMENT ITEM	ALL OTHER DEPARTMENTS	DEFENCE
S&W:BASIC SALARY	1.5%	2.0%
S&W:PERIODIC PAYMENTS OTH (RES)	1.5%	2.0%
S&W:CAPITAL REMUNERATION (RES)	1.5%	2.0%
S&W:COMPNS/CIRCM (RES)	1.5%	2.0%
S&W:LEAVE DISCOUNTING (RES)	1.5%	2.0%
S&W:NON PENSIONABLE ALL OTH(RES)	1.5%	2.0%
S&W:OVERTIME (RES)	1.5%	2.0%
S&W:SERV BASED OTHER (RES)	1.5%	2.0%
S&W:SERVICE BONUS (RES)	1.5%	2.0%
EMPL CONTR:PENSION (RES)	1.5%	2.0%
ALL OTHER	0%	0%

## 7 Public Entities

7.1 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.

- 7.2 As with departments at the national and provincial 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.
- 7.3 Over and above these guidelines, it is important that public entities are advised of the long-term objective that government is exploring concerning an integrated remuneration framework and/or an ambit of a Single Bargaining Structure which amalgamates or even incorporates all public institutions and State-Owned Entities.

### **Public Entities Bargaining Councils**

- 7.4 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 considered 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.
- 7.5 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 2023 MTEF considering the economic and fiscal challenges the country faces.

### **Public Entities Personnel Information**

- 7.6 No changes have been affected to the National Public Entities Personnel sheet. Information relating to completion of the database are contained therein.
- 7.7 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.
- 7.8 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.
- 7.9 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.



## Technical Issues

- 7.10 Public Entities must ensure alignment between compensation of employees' budgets and personnel headcount. Unrealistic submissions with evidence of poor attempt at managing costs downwards amounts to non-compliance.
- 7.11 The 2023 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 2022 MTEF or where public entities have affected savings within their compensation budgets.
- 7.12 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 considered when budgeting for compensation of employees:
- 6.2.1 Any relevant Ministerial determinations and directives
  - 6.2.2 Sectoral bargaining councils' agreements – where relevant
  - 6.2.3 Cabinet/Relevant Provincial Executive Council decisions relating to remuneration and personnel management matters and expansion of mandates
  - 6.2.4 Any relevant Treasury circulars

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