2026 MTEF

MEDIUM TERM EXPENDITURE FRAMEWORK

Guidelines for Costing and Budgeting for Compensation of Employees

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

G20
SOUTH AFRICA 2025

2030 NDP

2026

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GUIDELINES FOR COSTING AND BUDGETING FOR COMPENSATION OF EMPLOYEES

Contents

1. INTRODUCTION

Overview

The recently tabled Budget 2025 reflects an economy that is currently operating under significant fiscal constraints. The imperative to manage public spending, particularly the compensation of employees, requires strategic interventions that support long-term fiscal sustainability while maintaining the capacity of the state.

Given these current economic circumstances and the limited State resources, institutions are expected to carefully plan for the period ahead and remain within the set compensation budgets during the 2026 MTEF. National departments and provinces will be expected to summarize the content of the Human Resource Budget Plans and their relevant human resource costing models indicating how current and future headcounts will be managed within the allocated compensation budget ceilings. This will allow for prudent identification of cost pressures so that corrective measures can be taken, with the support of relevant Treasuries.

As part of the key measures to manage the public service wage bill, create efficiencies while at the same time meeting service delivery mandates, government is introducing the incentivised Early Retirement Programme (ERP) and incentivised Voluntary Exit Programme for eligible employees. These programmes are designed to provide an attractive, voluntary exit path for long-serving public servants while creating opportunities for savings and the renewal of the public service workforce.

Further to this, the 2022 Personnel Expenditure Review (PER) represents a critical strategic intervention by the Department of Public Service and Administration (DPSA) in collaboration with National Treasury, to ensure the long-term fiscal sustainability of the public service wage bill. By identifying key sectoral challenges and proposing concrete, transformative recommendations, the review serves as a vital roadmap for reforming the public service's remuneration and human capital strategies.

Planned Incentivised Exit Mechanisms

The following two distinct options will be made available for eligible employees:

Incentivised ERP (Ages 55 to 59)

- Employees aged 55 to 59 who are employed in the public service.
- Approved applicants will have their pension benefits paid without the standard penalty for early retirement.
- An additional financial incentive will be paid, calculated as follows:
  - **Two weeks' basic salary** for each of the first twenty completed years of pensionable service; plus
  - **One week's basic salary** for each completed year of pensionable service thereafter.

Voluntary Exit Incentive (Ages 60 to 63)

- Employees aged 60 to 63 are eligible to apply for a voluntary early exit. As they are past the minimum retirement age, their pensions are not subject to penalty.
- To encourage participation, a financial incentive is offered, calculated as follows:
  - **Two weeks' basic salary** for each of the first ten completed years of pensionable service; plus
  - **One week's basic salary** for each completed year of pensionable service thereafter.

National Treasury will be assisting in providing some additional funding to qualifying departments and government components, both nationally and provincially, who wish to utilise section 16(6) of the PSA or applicable sector legislation. However, priority will be given to those departments that are experiencing significant pressures within their compensation budgets in 2025/26 and 2026/27.

Further details regarding funding requirements and the scope of funding of these exit mechanisms will be detailed in the Determination to be circulated by the DPSA in due course.

Personnel Expenditure Review

The DPSA in collaboration with the National Treasury, undertook the 2022 PER to address growing concerns about the sustainability of the public service wage bill and its impact on the national fiscus. The primary aim of the review was to assess whether the current remuneration strategy and policies were meeting their objectives. The overarching goal was to provide evidence-based recommendations to inform the development of a revised, more effective, and efficient remuneration framework for the public service for the next five years, ultimately contributing to the creation of a capable, ethical, and developmental state.

The review presented its findings to the Forum of South African Directors-General (FOSAD) and Cabinet which highlighted sector specific challenges as well as cost drivers within various sectors. The findings highlighted sector specific challenges and cost drivers within various sectors and proposed a set of comprehensive recommendations aimed at transforming Human Resource Management and Remuneration in the public service. Some of the key proposals include:

- **Review of Occupational Specific Dispensations (OSDs):** A thorough review of all existing OSDs, which are unique salary structures for specific occupations.
- **Review of Notch Increases:** To reduce or completely remove the automatic annual notch increases for public servants.
- **Review of Allowances:** A specific recommendation to review and potentially revise the structure and payment of rural allowances.
- **Interns' Conditions of Employment:** To review and amend the conditions of employment for interns and individuals in developmental programmes.

The DPSA has indicated that the implementation of some of these recommendations has already commenced with sector wide consultations currently taking place to determine what is feasible to implement within specific sectors. This signals government's commitment to building a more capable and productive public service while also ensuring an affordable public service moving forward. Moreover, the findings and recommendations of the PER will form part of the government’s commitment to ensure a more streamlined and effective allocation of resources through the Targeted and Responsible Savings (TARS) process as outlined in the 2026 MTEF Technical Guidelines.

2025 Wage Agreement (Resolution 1 of 2025)

The recently concluded multi-year wage agreement for public service employees, ranges from 2025/26 to 2027/28. Essentially, the 2026 MTEF period will be defined by the compensation "carry-through costs" of 2025/26. For the 2026/27 and 2027/28 financial years, salaries are set to increase by the projected Consumer Price Index (CPI) as per National Treasury’s forecast, with a floor of 4 per cent should inflation fall below 4 per cent and a ceiling of 6 per cent should inflation rise above 6 per cent in each financial year.

Furthermore, despite the current assumptions as outlined in this guide for the costing of compensation ceilings, departments should be cognisant of the implications of any changes to parameters such as CPI which directly impact the cost of salary adjustments as well as any future wage agreements hereafter.

2. COST-OF-LIVING ADJUSTMENT

For the purposes of baseline estimation over the 2026 MTEF period, the assumed cost-of-living adjustment should be based on the National Treasury forecast and are estimated as follows:

- CPI in 2026/27
- CPI in 2027/28
- CPI in 2028/29

Note: The 2025 Wage Agreement stipulates the cost-of-living adjustment for 2026/27 and 2027/28. However, the 2028/29 projection serves as a guide for the costing of compensation ceilings by departments. This is not meant to pre-empt the outcome of future wage settlements in the PSCBC.

3. ASSUMPTIONS

Inflation assumptions

The Inflation parameters assume 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.

It should be noted that the various allowances and benefits applicable to public service employees may use different inflation or Consumer Price Index (CPI) forecasts. Costing of any allowances or benefits should be aligned with their relevant PSCBC resolutions including the inflation forecasts to be used.

Medical Allowance

The adjustment on medical allowance is determined in accordance with the PSCBC Resolution 2 of 2015 after taking into account clause 5 of PSCBC Resolution 1 of 2025. Medical allowances projections are based on Medical Price Index (MPI) as per Statistics SA data. The following are relevant parameters for compensation budgeting purposes:

- MPI in 2026/27
- MPI in 2027/28
- MPI in 2028/29

Housing Allowance

The housing allowance as contained in the PSCBC Resolution 7 of 2015 and after taking into account clause 4 of Resolution 4 of 2025, provides for the allowance to be adjusted annually on the basis of the average CPI for the preceding financial year, thus estimation for the current year and the 2025 MTEF period is as follows:

- CPI in 2026/27
- CPI in 2027/28
- CPI in 2028/29

Performance bonus

In a move to contain the public sector wage bill and ensure fiscal sustainability, government has effectively placed a moratorium on performance bonuses for public service employees. As of the 2024/25 financial year, and for subsequent years until further notice, a 0% threshold is applicable to the payment of performance bonuses including subsequent financial years.

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 2024/25 onwards. Executive Authorities cannot exceed the threshold provided in the latest incentive policy framework document.

While the direct financial incentive of a performance bonus is currently suspended, the Performance Management and Development System (PMDS) should still be robustly implemented to drive service delivery and enhance employee capabilities. Performance assessments should be conducted regularly and fairly, providing a basis for pay progression and identifying areas for training and development.

Baseline Estimation- Escalation factors for SMS and MMS members

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

Progression rates

Progression factors are detailed in Table 3 below.

4. HEADCOUNT MANAGEMENT

Public Service employees are guided by two main pieces of legislation, namely the Public Service Act, 1994 (PSA) and the Public Service Regulations, 2016 (PSR). In general, these pieces of legislation require departments to develop human resource plans that should consider future staffing needs and how they will be funded (Section 26, Public Service Regulations). Effective human resource planning and performance management helps ensure staff are utilised efficiently and effectively within the department compensation budget (Chapter 3, Public Service Regulations). Moreover, departments are expected to continue to realign their human resource plans with both service delivery imperatives and the compensation allocations including the impact of the latest wage assumptions as per this guide.

As mentioned earlier, the National Treasury and the Department of Public Service and Administration are currently engaging with Labour Unions in the PSCBC regarding exit mechanisms which target employees in a specific age group. These exit mechanisms are designed to provide additional financial incentives to attract eligible employees. The details on these initiatives are a work-in-progress but will be clearly communicated through a directive that will be issued by the DPSA once the relevant engagement processes have been concluded.

5. HUMAN RESOURCE BUDGET PLAN (HRBP)

The HRBP remains the primary planning tool for preparation of compensation budgets and headcount management. Moreover, the HRBP tool is critically important particularly as it relates to the current PERSAL/PERSOL control measures. National Treasury assists the DPSA in the process by providing confirmation of funding for all affected posts based on the inputs submitted in the HRBP tool.

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.

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.

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.

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.

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 intends to start working with the Provincial Treasuries in the 2026 MTEF for a full rollout of the HRBP tool in provincial departments. Provincial Treasuries will be expected to set compensation ceilings for provincial departments during the 2025 MTEF. Departments will be expected to summarize the content of the Human Resource Budget Plans indicating how the institutions will manage their workforces within the allocated compensation budget ceilings.

6. TECHNICAL ISSUES

Departments need to finalise their 2026 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 2026 ENE workbook for the 2026 MTEF period.

New estimates must be generated for the 2028/29 financial year through the HRBP tool – the 2028/29 compensation budget limit has been adjusted by inflationary projections as outline in section 2 above. This compensation budget limit cannot be breached. Breaching the compensation budget limit amounts to financial misconduct and will attract relevant sanctions.

Departments are expected to:

- 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. The HRBP provides preloaded information of the HRBP tool so as to provide a baseline to be assessed by the department.

- Indicate upfront all vacancies within a department that are planned to be filled in the PERSAL system for the current financial year and/or over the MTEF period. Plans to fund and fill any vacancies should prioritise core posts.

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

- 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.

- Submit the HRBP tool as part of the MTEC submissions and will be evaluated as part of the 2026 budget process.

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.

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:

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

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

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

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.

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 BASELINE ESCALATION FACTORS (LEVEL 1 to 10 - OSD AND NON-OSD NOT ON TCE)

PAYMENT ITEM	2026/27	2027/28	2028/29
S&W:BASIC SALARY	CPI*	CPI*	CPI
S&W:HOUSING ALLOWANCE	CPI	CPI	CPI

S&W:NON PENSIONABLE ALL OTH(RES)	CPI	CPI	CPI
S&W:OVERTIME	CPI	CPI	CPI
S&W:SERVICE BONUS (RES)	CPI*	CPI*	CPI
EMPL CONTR:MEDICAL	MPI	MPI	MPI
EMPL CONTR:PENSION	CPI*	CPI*	CPI
ALL OTHER	CPI	CPI	CPI

** CPI must take into account the parameters as per the 2025 Wage Agreement*

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

PAYMENT ITEM	2026/27	2027/28	2028/29
S&W:BASIC SALARY	CPI*	CPI*	CPI
S&W:HOUSING ALLOWANCE	CPI*	CPI*	CPI
S&W:NON PENSIONABLE ALL OTH(RES)	CPI*	CPI*	CPI
S&W:OVERTIME	CPI	CPI	CPI
S&W:SERVICE BONUS (RES)	CPI*	CPI*	CPI
EMPL CONTR:MEDICAL	CPI*	CPI*	CPI
EMPL CONTR:PENSION	CPI*	CPI*	CPI
ALL OTHER	CPI	CPI	CPI

** CPI must take into account the parameters as per the 2025 Wage Agreement*

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.

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 2026 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:CMPNS/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

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.

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.

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 which amalgamates or even incorporates all public institutions relying mainly on government transfers to fund their operations.

Public Entities Bargaining Councils

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 Service 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.

Public Entities Personnel Information

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

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.

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.

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

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.

The 2026 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 previous MTEF periods or where public entities have affected savings within their compensation budgets.

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:

- Any relevant Ministerial determinations and directives
- Entity/Sectoral bargaining councils' agreements – where relevant
- Cabinet/Relevant Provincial Executive Council decisions relating to remuneration and personnel management matters and expansion of mandates
- Any relevant Treasury circulars

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