



2027 MTEF

MEDIUM TERM EXPENDITURE FRAMEWORK

Guidelines for the Costing and Budgeting
for Compensation of Employees



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

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1. INTRODUCTION

1.1. Overview

The formulation of the 2027 Medium-Term Expenditure Framework (MTEF) Guidelines for Costing and Budgeting for Compensation of Employees occurs against a backdrop of macroeconomic complexities and deliberate structural and fiscal realignments within the South African economic environment.

Within this constrained environment, the central policy directive driving the 2027 MTEF is the overarching mandate of the Medium-Term Development Plan (MTDP) 2024–2029. The MTDP identifies several apex priorities, however, in relation to the public sector as a whole, building a capable, ethical, and developmental state is a critical objective which cannot be taken lightly. At the center of this objective is the profound recognition that public sector employees are the key drivers of government service delivery. As the primary agents who translate policy into tangible public value, their dedication and expertise are highly valued as the true foundation of a capable state.

Because compensation of employees constitutes the largest single component of consumption expenditure, the management of the public sector wage bill is no longer merely an administrative exercise in ceiling compliance; it is the primary fiscal lever for enabling the MTDP's developmental agenda. The 2027 MTEF Guidelines for Costing and Budgeting for Compensation of Employees Guidelines go beyond simply controlling staff numbers. Instead, these guidelines focus on compensation budget limits while actively reshaping and organizing the workforce to be as effective as possible.

In an effort to systematically manage the public sector wage bill, realize operational efficiencies, and ensure that service delivery mandates are met without compromising fiscal stability, the government is actively enforcing a multi-pronged suite of structural workforce reforms namely:

- Incentivised Early Retirement and Voluntary Exit Programme
- Ghost Workers Audit
- 2022 Personnel Expenditure Review; and
- Public Administration Management Amendment Act

2. PUBLIC SECTOR WAGE BILL REFORMS

2.1. Incentivised Early Retirement and Voluntary Exit Programme

Accordingly, the first phase of the programme concluded on the 31 March 2026. The final phase of the programme officially commenced on 1 April 2026 and is scheduled to close for applications on 30 June 2026.

National Treasury provisionally allocated a central amount of R5.5 billion to qualifying national and provincial departments, comprising R2.2 billion in 2025/26 and R3.3 billion in 2026/27. In the first phase, more than 8103 applications have been approved, while R4.3 billion of the available amount has been drawn down for financial incentive costs. For the final phase, there remains R1.2 billion for new applications in the 2026/27 financial year.

2.2. Ghost Workers Audit

The ghost worker audit targeting payroll fraud and irregular payments has identified 4 319 high-risk cases using the PERSAL data. The Department of Home Affairs (DHA) conducted an additional analysis using the National Population Register (NPR), the results of which are still being finalized.

Across both analyses, cases were flagged for the following reasons:

- Persons whose details cannot be verified against the National Population Register due to a low-quality photograph on record or the absence of a Smart Identity Card;
- Persons who do not appear on the National Population Register;
- Persons who received more than one basic salary payment into different bank accounts within the same month;
- Persons linked to bank accounts receiving basic salary payments from more than one PERSAL number within the same month (i.e. payments relating to at least two individuals); and
- Persons who changed their bank accounts at least three times during a calendar year (January to December).

All flagged cases will be required to complete an online verification using a platform developed in partnership with the DHA to conduct the necessary checks. The online verification platform has been tested and is ready to be rolled out to all national and provincial departments in June 2026.

A PFMA Instruction Note will be issued and effective on 15 June 2026. The Instruction Note provides Accounting Officers with the necessary guidance to support their departments in undertaking the online verification.

2.3. 2022 Personnel Expenditure Review

The 2022 Personnel Expenditure Review (PER) was a collaborative effort between the DPSA and the National Treasury to address concerns regarding the sustainability of the public service wage bill and its impact on the national fiscus. The review aimed to evaluate the effectiveness of current remuneration strategies and provide evidence-based recommendations for a more efficient framework over the next five years. Findings were presented to various bodies, including the Forum of South African Directors-General (FOSAD) and Organized Labour, highlighting specific sector challenges and cost drivers.

The DPSA has already begun implementing some of these recommendations, with ongoing sector-wide consultations to determine feasibility including engagement with organized labour in the public service coordinating council (PSCBC). These findings will also be integrated into the Targeted and Responsible Savings (TARS) process as outlined in the 2027 MTEF Technical Guidelines. This signals government's commitment to building a more capable and productive public service while also ensuring an affordable public service moving forward.

2.4. Public Administration Management Amendment Act

The Public Administration and Management Act, 2014, has been amended and was promulgated by the President on 01 April 2026. While the legal framework is currently

in place, the President has yet to announce a formal effective date. The primary objective of the Amendment Act is to bolster professionalism within the South African public sector through targeted reforms in governance, ethics, and the establishment of more consistent administrative arrangements across all spheres of government.

The Act includes the following key provisions:

- **Business with the State:** The Act strengthens and clarifies the prohibition on public employees doing business with organs of state, to reduce conflicts of interest.
- **Secondments and Transfers:** The Act introduces clearer, standardised frameworks for the secondment and transfer of employees across different spheres of government.
- **National School of Government (NSG):** The Act formally establishes the NSG as a distinct national department rather than an internal branch.
- **Employment Disparities:** The Act introduces measures to help address unjustifiable employment disparities across all spheres of government including Public Entities and State-Owned Companies.
- **Conditions of Service:** The Act sets out clearer procedures for determining conditions of service with significant financial implications and provides mechanisms to recover overpaid remuneration and benefits.

3. WAGE AGREEMENT

The current 2025 multi-year wage agreement for public service employees, covers the period 2025/26 to 2027/28. For the 2026/27 financial year, wages for employees on salary level 1 to 12 and those covered by Occupation Specific Dispensations (OSDs) in the public service were adjusted by 4 per cent, and for the 2027/28 financial year, wages 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.

As the current 2025 multi-year wage agreement draws closer to its final phase in the 2027/28 financial year, the government must prepare to chart a new path forward for public service remuneration. While the existing agreement concludes with wage increases linked to the projected Consumer Price Index (CPI)—within a defined range of 4 to 6 per cent—departments are cautioned to remain highly cognisant of shifting economic parameters that will fundamentally impact the cost of any future settlements. Consequently, the commencement of new negotiations will require a strategic approach that balances the need for a capable public service with the realities of prevailing economic conditions and long-term fiscal affordability.

The current 2025 wage agreement ([PSCBC Resolution 1 of 2025](#)) is available for download from the DPSA website.

4. COST-OF-LIVING ADJUSTMENTS

For the purposes of baseline estimation over the 2027 MTEF period, the assumed cost-of-living adjustment should be based on the National Treasury forecast and are estimated as follows:

- CPI* in 2027/28

- CPI in 2028/29
- CPI in 2029/30

** In accordance with PSCBC Resolution 1 of 2025, the cost-of-living adjustment for 2027/28 is indexed to National Treasury's projected CPI, bounded by a contractually agreed 4.0% floor and a 6.0% ceiling (i.e., if CPI < 4%, adjustment = 4%; if CPI > 6%, adjustment = 6%; otherwise, adjustment = actual projected CPI). Furthermore, the 2028/29 and 2029/30 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.*

5. ASSUMPTIONS

5.1. 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.

5.2. 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 2027/28
- MPI in 2028/29
- MPI in 2029/30

5.3. 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 2027 MTEF period is as follows:

- CPI in 2027/28
- CPI in 2028/29
- CPI in 2029/30

5.4. 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. For current and subsequent years, a 0% threshold is applicable to the payment of performance bonuses until further notice from the DPSA.

The *2019 Incentive Policy Framework for Employees in the Public Service* is clear on the matter of performance bonuses or any other performance related incentives (i.e. cash vouchers, etc) from 2024/25 onwards. Executive Authorities cannot exceed the threshold or limit 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.

Notwithstanding the current moratorium, the DPSA is actively reviewing the performance management and development system to explore the potential reintroduction of revised financial incentives. This initiative aims to create sustainable mechanisms that recognize and incentivize high-performing public service employees while maintaining fiscal discipline. Further details and specific measures will be communicated once the policy review process is finalized.

5.5. 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.

5.6. Progression rates

Progression factors are detailed in Table 3 below.

6. 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.

7. 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 Institutions 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 is currently exploring mechanisms to extend the utilization of the HRBP tool to provincial departments, with a view toward potential introduction in the 2027/28 financial year. In the interim, Provincial Treasuries (PTs) are expected to either implement their own established planning tools to support their HR budget planning and set compensation ceilings for provincial departments. Further guidance on the phased rollout and integration of the HRBP tool across provinces will be provided as development progresses.

8. TECHNICAL ISSUES

Departments need to finalise their 2027 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 2027 ENE workbook for the 2027 MTEF period.

New estimates must be generated for the 2029/30 financial year through the HRBP tool – the 2029/30 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 2027 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	2027/28	2028/29	2029/30
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	2027/28	2028/29	2029/20
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

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 2027 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%

9. OTHER PUBLIC INSTITUTIONS

While the broader public sector has not historically implemented explicit compensation ceilings, National Treasury considers it prudent that all spheres of government, including public entities and State-Owned Companies should adopt and adhere to all central instructions relating to compensation management and associated cost-containment measures. As with National Departments, all spheres of government are expected to manage and monitor the implementation of compensation budgets and headcount numbers in order to identify sources of cost pressures and implement corrective measures where necessary.

In this regard, recent amendments to the Public Administration Management Act, 2014 strengthen government's broader objective of removing unjustifiable disparities in remuneration and conditions of service across all spheres of government, particularly

for employees who do not fall within the scope of a relevant bargaining council. The amendments empower the Minister of Public Service and Administration, subject to applicable labour legislation and after consultation with the relevant Minister, to prescribe norms and standards to establish upper limits for remuneration and conditions of service, and to determine measures aimed at addressing unjustifiable disparities, provided that such measures do not reduce employees' remuneration.

The amendments to the Public Administration Management Act, 2014 further introduce additional governance arrangements relating to the determination of conditions of service with financial implications, including annual salary adjustments, salary scales, performance bonuses, pay incentives, pension benefits and related remuneration matters. In terms of these provisions, no executive authority, accounting authority or accounting officer in all spheres of government including Public Entities and State-Owned Companies may enter into a collective agreement or determine conditions of service with financial implications without first consulting the Minister of Public Service and Administration and the Minister of Finance. In addition, a Committee of Ministers will be established to oversee matters relating to conditions of service with financial implications across the public administration, with affordability and fiscal sustainability forming key considerations in determining mandates and remuneration adjustments.

Over and above these guidelines, all spheres of government are advised of government's long-term objective of establishing an integrated remuneration framework and/or an ambit of a Single Bargaining Structure which amalgamates or even incorporates all spheres of government, particularly for public institutions that rely predominantly on government transfers to fund their operations. The amendments to the Public Administration Management Act, 2014 therefore provide a legislative basis for greater alignment, coordination and oversight of remuneration practices across public institutions.

9.1. Public Sector Bargaining Councils

It is important to note that all spheres of governments are not legally obligated to implement the same public service wage resolutions emanating from the Public Service Coordinating Bargaining Council (PSCBC). However, given the prevailing economic and fiscal environment, all spheres of government are encouraged to take cognisance of public service wage agreements and adopt similar cost-containment principles to ensure their continued financial sustainability and ability to deliver on their mandates. Careful consideration should therefore be given to the financial implications of remuneration adjustments, particularly the carry-through costs and their impact on future service delivery budgets over the medium term. Although certain Public Institutions retain a degree of autonomy in relation to remuneration policy decisions, the recent amendments to the Public Administration Management Act underscore the need for greater coordination, consultation, affordability assessment and oversight in determining conditions of service with financial implications, thereby supporting government's objective of reducing remuneration disparities and promoting fiscal and economic sustainability across the public administration.

9.2. Public Institutions Personnel Information

No changes have been affected to the Public Institutions (including Public Entities and State-Owned Companies) Personnel sheet. Information relating to completion of the database are contained therein.

Public Institutions 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.

9.3. Technical Issues

Public Institutions 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 2027 MTEF indicative baseline does not provide for general funding of new posts, except in cases where individual public institutions were specifically allocated funding to create new critical posts in the 2026 MTEF or where public institutions 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 Institutions (i.e., all personnel in Public Institutions should be fully utilised to avoid unnecessary use of consultants). Public Institutions 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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Private Bag X115, Pretoria, 0001 | 40 Church Square, Pretoria, 0002 | Tel: +27 12 315 5944 | www.treasury.gov.za



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