



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
2017 MEDIUM TERM EXPENDITURE FRAMEWORK (MTEF)

National Treasury

June 2016

1 INTRODUCTION

- 1.1 The purpose of these guidelines is to provide guidance to institutions on costing and budgeting for compensation of employees (COE).
- 1.2 The current multi-year salary agreement was signed in May 2015. The agreement allowed for the adjustment and improvements to conditions of service for employees for the period 2015/16 to 2017/18. The second year of the agreement started on 1 April 2016.
- 1.3 Key cost drivers of wage agreement over the 2017 MTEF are revised. Inflation projections, cost of living adjustments, housing allowance and medical allowance increases are as follows:
 - A 7.6% cost-of-living adjustment in 2016/17, followed by;
 - 7.2% (CPI + 1) in 2017/18
 - 6.9% (CPI + 1) in 2018/19
 - 6.6% (CPI + 1) in 2019/20 (not covered by the 2015 wage agreement but based on trends of wage settlements in the past few financial years)
 - An increase in medical allowance of 9% for 2016/17 increasing in line with medical CPI for subsequent years (CPI + 2.5%).
 - An increase of Housing Allowance by R300 (from R900) in 2015/16 and no increase in 2016/17. The allowance will then be adjusted by CPI for subsequent years.

2 BASIC COSTING PROCEDURES

- 2.1 Institutions are expected to continue to budget for compensation of employees within the set compensation ceilings for the 2017 MTEF. Institutions must ensure alignment between compensation of employees budgets and personnel headcount. Relevant Treasuries will refer back budget submissions that are unrealistic.
- 2.2 The 2017 MTEF indicative baseline does not provide for general funding of new posts, except in cases where departments were specifically allocated funding to create new critical posts in the 2016 MTEF or have effected savings within their compensation budgets.
- 2.3 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 institutions. That is, all personnel in institutions should be fully utilised to avoid unnecessary use of consultants.
- 2.4 Institutions should ensure that the following are taken into account when budgeting for compensation of employees:
 - Ministerial determinations and directives (e.g those issued by Minister for Public Service and Administration)
 - Public Sector Co-ordinating Bargaining Council (PSCBC) agreements

- Cabinet decisions relating to remuneration and personnel management matters and expansion of mandates
- 2.5 A database with the personnel sheet has been provided for institutions to populate. Detailed explanation has been provided in the database guideline sheet.
- 2.6 Actual expenditure figures on filled posts must be extracted from your pay-roll system (such as PERSAL; PERSOL; SAP, etc) for each item of payments for SMS and non-SMS employees, respectively. Costs of posts to be filled for the remainder of the financial year, as well as financial implications of promotions and demotions, should be generated from institution's Human Resource Management (HRM) plan.
- 2.7 To cost personnel budgets, the projected annual cost of filled posts as at end of June 2016 plus cost of vacant funded posts to be filled for the remainder of the financial year, should be used as a base for projections over the MTEF. This is the *revised estimate* for 2016/17 as at the end of June 2016. A Human Resource Budget Plan (HRBP) has been provided to departments and should assist in executing such computations and estimating funding available for filling posts over the 2017 MTEF.
- 2.8 Revised estimate figures need to be generated *per item of payments per salary level* within the COE line item to allow for application of the different dispensations such as Senior Management Service (SMS) and Occupation-Specific Dispensations (OSDs). For instance, the COE line item is composed of items of payments such as basic salary, pension, overtime, performance bonus¹, medical allowances, etc. The HRBP tool has been designed to automatically execute most of these computations.
- 2.9 To generate COE costs over the MTEF, the revised budget estimates for 2016/17 financial year for each item of payments should first be increased by the cost of living adjustment *escalation factors* applicable to each fiscal year. This operation yields the cost of personnel taking into account the cost of living adjustment (COLA) and other escalation factors agreed to in the wage agreement. These escalation factors are shown in the table below and have been pre-populated in the HRBP for the 2017 MTEF.

TABLE 1: COLA ESCALATION FACTORS (LEVEL 1 to 10)

PAYMENT ITEM	2016/17	2017/18	2018/19	2019/20
S&W: BASIC SALARY	7.6%	7.2%	6.9%	6.6%
S&W:HOUSING ALLOWANCE	0.0%	6.2%	5.9%	5.6%
S&W:OVERTIME	7.6%	7.2%	6.9%	6.6%
EMPL CONTR:MEDICAL	9.0%	8.7%	8.4%	8.1%
EMPL CONTR:PENSION	7.6%	7.2%	6.9%	6.6%
S&W:PERFORMANCE BONUS	7.6%	7.2%	6.9%	6.6%
ALL OTHER	7.6%	7.2%	6.9%	6.6%

¹ Institutions should ensure that performance bonuses constitute a maximum of 1.5% of annual remuneration budget as per remuneration policy.

TABLE 2: COLA ESCALATION FACTORS (MMS)

PAYMENT ITEM	2016/17	2017/18	2018/19	2019/20
S&W: BASIC SALARY	7.6%	7.2%	6.9%	6.6%
S&W:HOUSING ALLOWANCE	7.6%	7.2%	6.9%	6.6%
S&W:OVERTIME	7.6%	7.2%	6.9%	6.6%
EMPL CONTR:MEDICAL	7.6%	7.2%	6.9%	6.6%
EMPL CONTR:PENSION	7.6%	7.2%	6.9%	6.6%
S&W:PERFORMANCE BONUS	7.6%	7.2%	6.9%	6.6%
ALL OTHER	7.6%	7.2%	6.9%	6.6%

TABLE 3: COLA ESCALATION FACTORS (SMS)

PAYMENT ITEM	2016/17	2017/18	2018/19	2019/20
S&W: BASIC SALARY	6.6%	6.2%	5.9%	5.6%
S&W:HOUSING ALLOWANCE	6.6%	6.2%	5.9%	5.6%
S&W:OVERTIME	6.6%	6.2%	5.9%	5.6%
EMPL CONTR:MEDICAL	6.6%	6.2%	5.9%	5.6%
EMPL CONTR:PENSION	6.6%	6.2%	5.9%	5.6%
S&W:PERFORMANCE BONUS	6.6%	6.2%	5.9%	5.6%
ALL OTHER	6.6%	6.2%	5.9%	5.6%

2.10 Having applied escalation factors to the baseline to yield the wage bill cost per item, *progression factors* are then applied to the results of the previous operation. This operation yields the wage bill cost per item of payments with escalation and progression factors. The 2012 wage agreement has extended the qualifying period for progression for first time participants from 12 to 24 months. Thereafter, employees qualify for progression annually. Note that, progression rates differ according to the remuneration policies in different sectors. The following are progression rates applicable to each of the sectors:

- a) Education: 1% every year;
- b) Correctional Services: 3% every second year;
- c) Police: 4% every three years;
- d) Defence: 4% every two years; and
- e) All other sectors: 1.5% every year.

2.11 Progression rates applicable to each of the sectors are divided by the applicable number of years to yield *effective progression factors*² for each year. The following table shows the annual effective progression factors to be applied to each item of payment. Note that progression does not apply to housing and medical allowances, bargaining chamber contributions or Unemployment Insurance Fund contributions.

² 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 4.

TABLE 4: EFFECTIVE PROGRESSION FACTORS (APPLIED TO EVERY YEAR OF THE 2017 MTEF)

PAYMENT ITEM	ALL OTHER DEPARTMENTS	PROVINCIAL EDUCATION	SAPS	DEFENCE
Basic salary	1.5%	1.0%	1.3%	2.0%
Overtime	1.5%	1.0%	1.3%	2.0%
Employer contribution: Pension	1.5%	1.0%	1.3%	2.0%
Performance bonus	1.5%	1.0%	1.3%	2.0%
Other items	1.5%	1.0%	1.3%	2.0%

- 2.12 Having applied escalation and progression factors, the third element is to apply a personnel *headcount growth factor*. This operation yields the total wage bill cost per item of payments with escalation, progression and personnel growth factors. Headcount growth must be kept within the set compensation ceilings.
- 2.13 In summary, to generate personnel costs for the 2017/18 financial year, the following computational procedures must be followed:
- A: Take revised estimate for 2016/17 per item of payments as at 30 June 2016
 - B: Multiply each payment item in (A) by the applicable cost of living adjustment rates for 2017/18 given in Table 1. Add the results to each payment item respectively
 - C: For each item of payment, multiply the result obtained in B by the applicable effective progression rate as given in Table 4. Add the results to each payment item respectively
 - D: For each item of payment, multiply the result obtained in C by the headcount growth factor for 2017/18. Add the results to each payment item respectively
 - E: Add together all the item of payment to generate the 2017/18 revised baseline, ensuring that estimates are in line with set compensation ceilings
 - F: Use the new baseline obtained for 2017/18 (using steps B to E) to calculate 2018/19. Then use the new 2018/19 baseline to calculate 2019/20. Estimates for subsequent years are arrived at by following the same procedures.
- 2.14 An excel based costing and budgeting tool is provided on the National Treasury website³ to assist institutions with costing of personnel budgets. The tool is built to allow ease of application of the five steps described above and should be used to cost both filled and vacant funded posts to be filled. However, as mentioned above, the HRBP circulated to departments has automated most of these procedures and departments are encouraged to use it for this purpose instead.

³ www.treasury.gov.za/publications/guidelines

3 OTHER COSTS TO BE TAKEN INTO ACCOUNT

- 3.1 In addition to the basic costing procedures, institutions should take account of relevant policies, Ministerial Determinations and Cabinet decisions for items not specifically covered in section 2 above.
- 3.3 Institutions affected by the PSCBC resolutions are requested to consult the DPSA website⁴ for information on how allowances and benefits are to be adjusted for each financial year.

4 COMPLETING THE PERSONNEL SHEETS FOR 2017 MTEF DATABASE SUBMISSIONS

- 4.1 Compensation budgets for both national and provincial departments have been reduced by R10 billion and R15 billion for 2017/18 and 2018/19 financial years, respectively. Departments should ensure that they remain within the set compensation ceilings over the 2017 MTEF.
- 4.2 The excel-based *personnel costing and budgeting tool* posted on the National Treasury website⁵ can assist institutions in assessing the value and average quantity of vacant funded posts. Instructions on how to use the tool are included in the spreadsheet. The tool can be used during the budget process before the beginning of the financial year to measure the value of funds available to fill critical vacant funded posts. It can also be used during the financial year to reconcile the personnel budget with expenditure and Human Resource information on posts that are funded and available to be filled.
- 4.3 Departments have been provided with the Human Resource Budget Planning (HRBP) tool to assist in costing of compensation budgets within budget ceilings. The HRBP of a department is prepopulated as follows:
- A breakdown of the currently employed headcount in the department by programme, and salary level. The currently employed headcount is based on the 31 March 2016 departmental headcount recorded in the PERSAL system.
 - A unit cost per salary level, per programme.
 - Actual 2015/16 expenditure recorded in the PERSAL system.
 - A calculation of the cost implication of maintaining the 31 March 2016 headcount in the department for the current (2016/17) financial year and over the MTEF period. This calculation is compared with the proposed compensation limit to identify any shortfalls or additional space available within compensation of employees departmental baselines.
- 4.4 The departments are expected to:
- Correct the breakdown of the currently employed headcount and the unit cost stated in 4.3 above if the department is not in agreement with the data from the PERSAL system.

⁴ www.dpsa.gov.za

⁵ www.treasury.gov.za/publications/guidelines

- 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.
- Provide a headcount management proposal, indicating reductions in headcount, which may have to include, amongst other, proposals on the following:
 - identification of excess staff and funded vacancies,
 - intentions with respect to the offer of employee initiated severance packages or early retirement, and
 - the redeployment across departments.
- Institutions should actively manage down costs associated with awarding notch increments, allowances, performance bonuses and overtime.
- The HRBP must be submitted as part of the MTEC documentation submission and will be evaluated as part of the 2017 budget process
- Provincial departments will be required to submit their HRBP's to the relevant provincial treasury in a format as may be prescribed. Provincial treasuries will be responsible for approving such plans.
- Further guidance on completing database templates is included in the templates themselves and should be read before completion thereof.

4.5 Guidelines for completing the Personnel sheet of Departments and Public Entities are included in the “technical Guidelines” sheet in the respective databases.