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 2018 MEDIUM TERM EXPENDITURE FRAMEWORK (MTEF)

National Treasury

June 2017

1 INTRODUCTION

1.1 On 13 January 2016 Cabinet approved compensation baseline reductions of R10 billion in 2017/18 and R15 billion in 2018/19. These reductions were distributed across all national and provincial departments, with a larger potion of the reduction made to national votes, as directed by Cabinet ceilings. Further reductions amounting to R471 million in 2018/19 and R497 million in 2019/20 were effected at National. Institutions are expected to continue to budget for compensation of employees within the set ceilings.

1.2 Departments are expected to adhere to the set ceilings during the 2018 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.

1.3 Institutions are expected to manage and monitor implementation of set ceilings and headcount numbers with the view to identify the sources of cost pressures so that corrective measures can be taken, with the support of Treasuries.

2 Wage Agreement

2.1 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 third and final year of the agreement started on 1 April 2017.

2.2 Wage negotiations for the new wage agreement for 2018/19 will commence in October 2017. It is anticipated that the new wage agreement will be implemented with effect from 1 April 2018.

2.2 Key cost drivers of the wage agreement over the 2018 MTEF have been revised. Cost of living adjustments, housing and medical allowance increases are as follows:

2.2.1 A 7.3% cost-of-living adjustment in 2017/18, followed by;

- 6.7% (CPI + 1%) in 2018/19 (not covered by the 2015 wage agreement but based on trends of wage settlements in the past few financial years)
- 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)
- 6.5% (CPI + 1%) in 2020/21 (not covered by the 2015 wage agreement but based on trends of wage settlements in the past few financial years)

2.2.2 The actual increase of medical allowance is 8.8% for 2017 calendar year. Medical allowances projections are based on Medical Price Index (MPI), which is normally CPI + 2.5%. The following are the projections used in the HRBP for budgeting purpose.

- 8.2% (CPI + 2.5%) in 2018/19
- 8.1% (CPI + 2.5%) in 2019/20

- 8.0% (CPI + 2.5%) in 2020/21

2.2.3 An increase of Housing Allowance by CPI each year.

- R1276 in 2017/18
- R1349 in 2018/19
- R1425 in 2019/20
- R1503 in 2020/21

2.2.4 Escalation factors for Middle Management Services (MMS) and Senior Management Services (SMS) please refer to Tables 2 and 3.

3 Human Resource Budget Plan (HRBP):

3.1 The HRBP remains the primary planning tool for preparation of compensation budgets and headcount management.

3.2 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 the set ceiling. The HRBP is a compulsory template that must be submitted with the budget submission as there will no longer be a personnel sheet to complete.

3.3 It is crucial that the HR and Finance personnel work together on the population of the tool, taking all the requirements of the guidelines into considerations. DGs and his/her DDGs must make the final decisions on approve the contents of the HRBP.

3.4 The HRBP has budget ceilings already allocated. Departments' costing must stay within the ceilings and demonstrate efforts to remain within the set ceilings through the headcount reduction strategies. Institutions experiencing underlying serious pressures which may compromise achievement of set budget ceilings, should explain the variance in a narrative.

4 Headcount Management:

4.1 Departments are expected to manage their headcount within the allocated ceilings. Because of constrained budgets, it is important for all Departments to assess the filling of posts. Only critical and core service delivery posts should be filled within the allocated budget. Vacant posts that have not gone through job evaluation process in the past five years should be evaluated, this will assist in determining the relevance of the post.

4.2 Management decisions have to be taken with regards to headcount management. Exit strategy options have been provided for in the HRBP tool to assist managers with the management of headcount. DPSA will provide further guidelines on headcount management and exit strategies.

4.3 Monthly headcount management on the filling of posts is expected from Departments to avoid situations whereby unfunded posts are inadvertently filled. In some provinces this function is monitored from the Premiers' office in order to enforce compliance to the ceilings.

5 Technical issues:

5.1 In 2016 Departments were asked to finalize their MTEF plans within the compensation budget limit and consequently to plan their establishment numbers by programme and salary level. Thus the finalized personnel information provided in the 2017 ENE now needs to be updated for the 2018 MTEF years.

5.2 New estimates must be generated for the 2020/21 financial year through the HRBP workbook – the 2020/21 compensation budget limit should not exceed a 7.5 per cent increase of the 2019/20 compensation budget limit.

5.3 The departments are expected to:

5.3.1 Correct the breakdown of the currently employed headcount and the unit cost stated in the HRBP if the department is not in agreement with the data from the PERSAL system.

5.3.2 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.

5.3.3 Provide a headcount management proposal indicating strategies to reduce headcount as indicated in the HRBP and DPSA guidelines.

5.3.4 Institutions should actively manage down costs associated with awarding performance bonuses and overtime.

5.3.5 The HRBP must be submitted as part of the MTEC documentation submission and will be evaluated as part of the 2018 budget process.

5.4 Institutions are expected to continue to budget for compensation of employees within the set compensation ceilings for the 2018 MTEF using the HRBP. Institutions must ensure alignment between compensation of employees budgets and personnel headcount. Unrealistic submissions with evidence of poor attempt at managing costs downwards, will be returned to the Departments for further engagement.

5.5 The 2018 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 2017 MTEF or where departments have effected savings within their compensation budgets.

5.6 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. Institutions should ensure that the following are taken into account when budgeting for compensation of employees:

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

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

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

5.7 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 per salary level and programme.

5.8 To cost personnel budgets in the HRBP, refer to the HELP and Assumptions sheet in the HRBP. The HRBP applies the following escalation factors:

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

PAYMENT ITEM	2017/18	2018/19	2019/20	2020/21
S&W: BASIC SALARY	7.3%	6.7%	6.6%	6.5%
S&W:HOUSING ALLOWANCE	6.3%	5.7%	5.6%	5,5%
S&W:OVERTIME (user adjustable)	7.3%	6.7%	6.6%	6.5%
EMPL CONTR:MEDICAL	8.8%	8.2%	8.1%	8.0%
EMPL CONTR:PENSION	7.3%	6.7%	6.6%	6.5%
S&W:PERFORMANCE BONUS (user adjustable)	7.3%	6.7%	6.6%	6.5%
ALL OTHER	7.3%	6.7%	6.6%	6.5%

TABLE 2: COLA ESCALATION FACTORS (MMS)

PAYMENT ITEM	2017/18	2018/19	2019/20	2020/21
S&W: BASIC SALARY	7.3%	6.7%	6.6%	6.5%
S&W:HOUSING ALLOWANCE	7.3%	6.7%	6.6%	6.5%
S&W:OVERTIME (user adjustable)	7.3%	6.7%	6.6%	6.5%
EMPL CONTR:MEDICAL	7.3%	6.7%	6.6%	6.5%
EMPL CONTR:PENSION	7.3%	6.7%	6.6%	6.5%
S&W:PERFORMANCE BONUS (user adjustable)	7.3%	6.7%	6.6%	6.5%
ALL OTHER	7.3%	6.7%	6.6%	6.5%

TABLE 3: COLA ESCALATION FACTORS (SMS)

PAYMENT ITEM	2017/18	2018/19	2019/20	2020/21
S&W: BASIC SALARY	6.3%	5.7%	5.6%	5.5%
S&W:HOUSING ALLOWANCE	6.3%	5.7%	5.6%	5.5%
S&W:OVERTIME (user adjustable)	6.3%	5.7%	5.6%	5.5%
EMPL CONTR:MEDICAL	6.3%	5.7%	5.6%	5.5%
EMPL CONTR:PENSION	6.3%	5.7%	5.6%	5.5%
S&W:PERFORMANCE BONUS (user adjustable)	6.3%	5.7%	5.6%	5.5%
ALL OTHER	6.3%	5.7%	5.6%	5.5%

5.9 The HRBP takes the progression factors into account. Note that, progression rates differ according to the remuneration policies in different sectors. Progression does not apply to housing and medical allowances, union's membership fees, bargaining chamber contributions or Unemployment Insurance Fund contributions.

5.10 The following are progression rates applicable to each of the sectors:

5.10.1 Provincial Education: 1% every year;

5.10.2 Correctional Services: 3% every second year;

5.10.3 Police: 4% every three years;

5.10.4 Defence: 4% every two years; and

5.10.5 All other sectors: 1.5% every year.

5.11 Progression rates applicable to each of the sectors are divided by the applicable number of years to yield *effective progression factors*[1] for each year. The following table shows the annual effective progression factors to be applied to each item of payment.

TABLE 4: EFFECTIVE PROGRESSION FACTORS (APPLIED TO EVERY YEAR OF THE 2018 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%

5.12 Public Entities are not expected to populate the HRBP as they will be expected to populate the personnel sheet in the public entities database during the ENE phase of the budget process.

[1] 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.