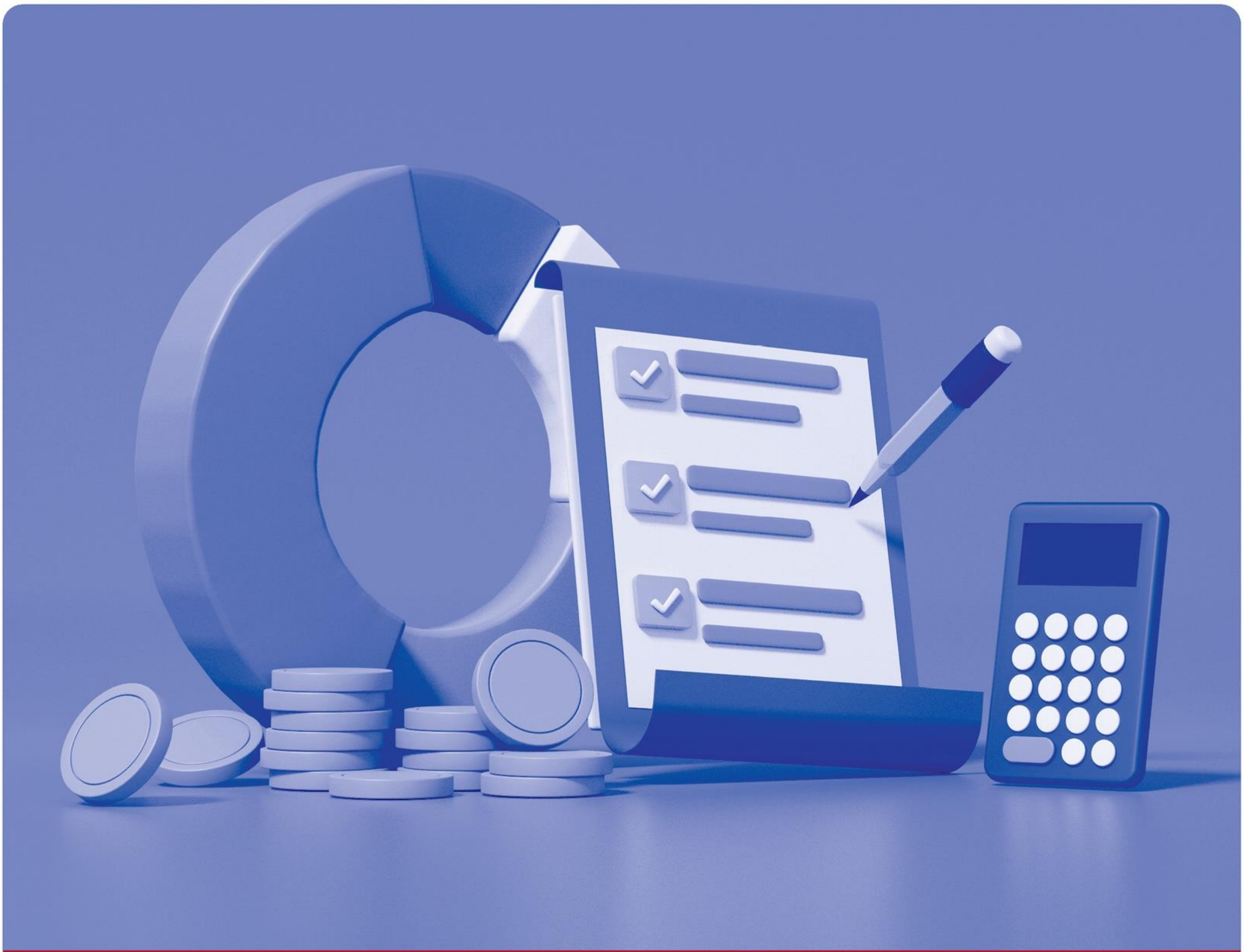

2024 MTEF

MEDIUM TERM EXPENDITURE FRAMEWORK

Guidelines for Costing and Budgeting for Compensation of Employees

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

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GUIDELINES FOR COSTING AND BUDGETING FOR COMPENSATION OF EMPLOYEES

FOR THE PREPARATION OF EXPENDITURE ESTIMATES FOR THE 2024 MEDIUM TERM EXPENDITURE ESTIMATES

NATIONAL TREASURY

JUNE 2023

Contents

1. INTRODUCTION

1.1. Institutions are expected to adhere to the set compensation ceilings during the 2024 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. Institutions are also expected to manage and monitor implementation of set ceilings and headcount numbers with the view to identifying the sources of cost pressures so that corrective measures can be taken, with the support of Treasuries.

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 2024 MTEF process prioritizes expenditure budgets towards areas that stimulate 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. 2023 WAGE AGREEMENT

2.1. On the 30 March 2023, the employer and majority of Labour Unions in the Public Sector Coordinated Bargaining Council (PSCBC) agreed upon a wage settlement for the 2023/24 and 2024/25 financial year. The two-year wage agreement is detailed as follows:

- For the 2023/24 Financial Year, the employer shall pay employees on salary levels 1 to 12 including those remunerated in terms of OSDs in the Public Service, an average increase of 7.5% which encompasses a translation of the current non-pensionable cash allowance into a pensionable salary, estimated at an average of 4.2%; and an additional 3.3% pensionable salary increase.
- For the 2024/25 Financial Year, the employer shall pay employees on salary levels 1 to 12 including those remunerated in terms of OSDs in the Public Service, a pensionable salary increases of a projected CPI (by National Treasury at time of 2024 budget tabling) for the 2024/25 financial year.

2.2. The Minister of Finance has further concurred with the Minister of Public Service and Administration (MPSA) to adjust the SMS salary scales by translating the current non-pensionable cash allowance into a pensionable salary increase, estimated at an average of 4.2 per cent and an additional 3.3 per cent pensionable salary increase to be effective from 01 April 2023.

2.3. The 2023 Budget does not make provision for the cost of the wage agreement for the 2023/24 Financial year. The Minister of Finance stated in his 2023 main budget speech that an unbudgeted wage settlement will require significant trade-offs in government spending because the wage bill is a significant cost driver. The Minister further suggested that funds must be clawed back in other ways.

2.4. Currently, a Joint Technical Task Team has been established with officials from National Treasury, DPSA and the Presidency to explore both short and medium/long term measures to fund the agreement as well as the carry through costs. The measures include but not limited to restricting recruitment of non-critical posts through a centralised PERSAL control initiative. In this way, headcount attrition will cushion the blow of the wage agreement. Moreover, a PERSAL clean-up initiative will be introduced to deal with any inefficiencies in the system such as unfunded vacant posts being loaded onto the PERSAL system.

2.5. Additionally, National Treasury and the Department of Public Service and Administration are working on other exit mechanisms which target employees in a specific age group. The exit mechanisms include Early retirement and Voluntary Service Package (VSP), and details on these initiatives will be clearly communicated through a directive that will be issued by the DPSA.

2.6. The current 2023 wage agreement is available for download from the DPSA website.

3. COST-OF-LIVING ADJUSTMENTS

3.1. The cost-of-living adjustment in 2023/24 is contained in the table below:

SALARY LEVEL	PENSIONABLE ADJUSTMENT	PENSIONABLE CASH GRATUITY (TRANSLATED)
1	3.3%	R1 220
2	3.3%	R1 220
3	3.3%	R1 220
4	3.3%	R1 220
5	3.3%	R1 220
6	3.3%	R1 352
7	3.3%	R1 352
8	3.3%	R1 450
9	3.3%	R1 450
10	3.3%	R1 640
11	3.3%	R1 640
12	3.3%	R1 695
13	3.3%	R1 695
14	3.3%	R1 695
15	3.3%	R1 695
16	3.3%	R1 818

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 2024 MTEF should in the interim be budgeted as follows:

- CPI in 2024/25
- CPI in 2025/26
- CPI in 2026/27

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 2024 MTEF period. These negotiated wage settlements will help determine the final compensation ceilings.

4. ASSUMPTIONS

Inflation projections

4.1. 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.

INDEX PARAMETER	2023/24	2024/25	2025/26	2026/27
CPI projection	5.2%	4.8%	4.7%	4.6%

Medical Allowance

4.2. The adjustment on medical allowance is determined in accordance with PSCBC Resolution 2 of 2015. Medical allowances projections are based on Medical Price Index (MPI) as per Statistics SA data. The following are relevant parameters for compensation budgeting purposes:

- 4.74% in 2023/24
- MPI in 2024/25
- MPI in 2025/26
- MPI in 2026/27

Housing Allowance

4.3. The housing allowance as contained in the PSCBC Resolution 7 of 2015 provides for the 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 2024 MTEF period is as follows:

- CPI in 2023/24
- CPI in 2024/25
- CPI in 2025/26
- CPI in 2026/27

Performance bonus

4.4. 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.

The following thresholds are applicable to payment of performance bonuses as a proportion of the wage bill:

- 0% in 2023/24 including subsequent financial years.
- 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.
- 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 2023/24 onwards. EAs cannot exceed the threshold or limit provided in the latest incentive policy framework document.

Escalation factors for SMS and MMS members

- 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.

5. HEADCOUNT MANAGEMENT

5.1. The cost 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 that South Africa currently faces.

5.2. Given the above, government intends to modify the PERSAL system such that all existing vacant posts that are deemed non-essential and recorded on the system will be automatically frozen. The programmatic freeze of posts will be implemented centrally by the PERSAL team effective 1st August 2023 till 31st March 2024. The restrictions will apply to all existing vacancies, as well as all positions that become vacant after the implementation date.

5.3. The Executive Authority/Accounting Officer of a department will be required to make submissions to the joint DPSA and National Treasury team for any requests for frozen posts to be filled, created or upgraded. Only vacant funded posts as approved by the technical team will be loaded onto the PERSAL system. All existing unfunded vacancies will be abolished on the system.

5.4. This does not imply that the national government will take over the PERSAL functions of departments. The PERSAL restriction will only be used as a tool to assist Executive Authorities to exercise control over the compensation budgets and further identify savings to fund the impact of the 2023 Wage Agreement. In view of the moratorium placed on the filling of posts that are deemed non-essential, Executive Authorities shall remain accountable for the staff establishment and the compensation allocation of their respective departments. Nonetheless, the power of filling vacancies in the public service vests with the Executive Authority's in terms of Section 3(7)(b) of the Public Service Act,1994, as amended.

5.5. Moreover, departments will be expected to use this process to realign their human resource plans with both service delivery imperatives and the compensation allocations including the impact of the 2023 Wage Agreement.

5.6. Monthly monitoring of filling of essential posts and the costs thereof will be undertaken by the Joint Technical Team, to avoid filling posts that are deemed non-essential.

5.7. The Department of Public Administration and Service will issue a directive detailing out the proposed PERSAL Control Methodology.

6. HUMAN RESOURCE BUDGET PLAN (HRBP)

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

6.2. 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.

6.3. 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.

6.4. 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 explanatory narrative of the extent of additional pressures and their implications.

6.5. 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.

6.6. 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.

6.7. National Treasury will be working with Provincial Treasuries in the 2024 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 2024 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.

7. TECHNICAL ISSUES

7.1. Departments need to finalise their 2024 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 2024 ENE workbook for the 2024 MTEF period.

7.2. New estimates must be generated for the 2026/27 financial year through the HRBP tool – the 2026/27 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.

7.3. 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 2024 budget process.

7.4. 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.

7.5. 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:

- 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.

7.6. 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.

7.7. 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	2024/25	2025/26	2026/27
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

Table 2: Interim COLA escalation factors (MMS on TCE, SMS including OSD and non-OSD)

PAYMENT ITEM	2024/25	2025/26	2026/27
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

7.8. The HRBP tool automatically considers the progression factors. Progression does not apply to housing and medical allowances (not on TCE), union's membership fees, bargaining chamber contributions or Unemployment Insurance Fund contributions.

7.9. 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 2024 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%

8. PUBLIC ENTITIES

8.1. 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.

8.2. 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.

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

Public Entities Bargaining Councils

8.4. 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 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

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

8.6. 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.

8.7. 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.

8.8. 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

8.9. 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.

8.10. The 2024 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.

8.11. 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

END

2024 MTEF

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