2025 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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1. INTRODUCTION

Context

The South African government's fiscal strategy, as outlined in the 2024 Budget, remains very much the same to stabilize public finances and reduce fiscal and economic risks. Given that a large share of the fiscus is attributed to the public sector wage bill, this naturally places limits on compensation budgets if government is to achieve fiscal sustainability over the 2025 MTEF.

Given the current economic circumstances and the limited State resources, it is critical for all government institutions to contribute towards containing the public sector wage bill.

Institutions are expected to carefully plan for the period ahead and remain within the set compensation budgets during the 2025 MTEF. National departments and provinces will be expected to summarize the content of the Human Resource Budget Plans (HRBP) 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.

The 2025 MTEF process prioritizes expenditure budgets towards areas that stimulate economic growth. Institutions are encouraged to implement stringent compensation containment measures such as the management of overtime payments and pay progression, where possible, as well as adhering to the incentive policy framework and other relevant DPSA circulars, where applicable.

Legislative requirements

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). The PSA establishes the framework for the organization and administration of the public service. It covers aspects like employment conditions, terms of office, discipline, retirement, and more. The PSR is aligned to the PSA and provides more detailed guidelines for implementing the act. They cover a wide range of topics related to human resource management, service delivery as well as planning and budgeting.

Section 25 (b) of the PSR requires the Executive Authorities to define and create the posts necessary to perform the relevant functions of the department while remaining within current allocated and MTEF budgets. Section 26 of the PSR also reiterates that the Executive Authorities shall prepare and implement a human resource plan after considering "*the available budgeted funds, including funds for the remaining period of the relevant medium term expenditure framework, for the recruitment, retention, utilisation and development of human resources according to the department's requirements*".

Effective human resource planning and performance management helps ensure staff are utilised efficiently and effectively within the department compensation budget.

To assist departments in aligning compensation budgets to the headcounts, government has implemented control measures on the payroll systems of national and provincial departments in the form of a Directive which was introduced on the 01 October 2023 to 31 March 2024. However, the Directive has since been extended to the end of March 2025 and essentially outlines control measures to be implemented on PERSAL and PERSOL to support Executive Authorities to operate within the compensation ceilings for their departments, when creating and filling vacant posts.

Wage negotiations

The next round of wage negotiations will formally start in July 2024. As agreed by parties during the Public Service Labour Summit, parties will work towards the alignment and the timing of the annual budget process with the wage negotiations process. This is to ensure that the outcome of wage negotiations process as reflected in the Public Service Coordinating Bargaining Council (PSCBC) resolutions is included the final budget envelope on compensation of employees.

Despite the current assumptions as outlined in this guide for the costing of compensation ceilings, departments should be cognisant of the implications of any future wage agreements in the course of managing various aspects of their human resources, including headcount management and planning, and the awarding of benefits and allowances.

2. BASELINE ESTIMATION

For the purposes of baseline estimation over the 2025 MTEF period, the assumed cost-of-living adjustment should be based on the National Treasury forecast and are estimated as follows:

- CPI in 2025/26
- CPI in 2026/27
- CPI in 2027/28

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 2025 MTEF period. These negotiated wage settlements will help determine the final compensation ceilings.

3. COSTING 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. 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 2025/26
- MPI in 2026/27
- MPI in 2027/28

Housing Allowance

The housing allowance as contained in the PSCBC Resolution 7 of 2015 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 of preceding financial year in 2025/26
- CPI of preceding financial year in 2026/27
- CPI of preceding financial year in 2027/28

Performance bonus

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 2024/25 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 2024/25 onwards. EAs cannot exceed the threshold or limit provided in the latest incentive policy framework document.

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

Given the extension of the current Payroll Directive until 31 March 2025, these control measures should continue to assist the executive authority and the National Treasury to manage the fiscal sustainability when creating and filling a vacant post in the department and to improve the integrity of the data on PERSAL and PERSOL. 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 PSA,1994, as amended.

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.

Government will be engaging with labour as part of the upcoming negotiation processes with the aim introducing a new dispensation that will allow for older employees in higher notches of various salary levels who wish to exit the public service earlier to do so with added incentives and without being penalised. The new dispensation will help in assisting departments to free up some positions and allow for recruitment of employees in entry levels and entry notches of various levels.

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 2025 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 2025 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 2025 ENE workbook for the 2025 MTEF period.

New estimates must be generated for the 2027/28 financial year through the HRBP tool – the 2027/28 compensation budget limit has been adjusted by inflationary projects as outline in section 2.3 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 2025 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	2025/26	2026/27	2027/28
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

*NB: * Actual escalation is subject to relevant PSCBC resolutions*

Table 2: Interim Baseline Escalation Factors (MMS on TCE, SMS including OSD and non-OSD)

PAYMENT ITEM	2025/26	2026/27	2027/28
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

*NB: * Actual escalation is subject to relevant PSCBC resolutions for MMS members and Ministerial determinations for SMS members*

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 2025 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 2025 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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