NATIONAL TREASURY

the dpsa

Department:
Public Service and Administration
REPUBLIC OF SOUTH AFRICA

EARLY RETIREMENT FUNDING

PROCESSES, ROLES AND RESPONSIBILITIES|JUNE 2019

1. Introduction

1.1 Government has entered into a wage agreement with Labour Unions admitted in the Public Service Coordinating Bargaining Council (PSCBC) in June 2018. At the time the agreement was concluded, it was estimated that shortfalls in departmental budgets as a result of the wage agreement would be as much as R30 billion over the 2018 Medium Term Expenditure Framework (MTEF).

1.2 During the 2019 budget speech, the Minister of Finance announced implementation of an early retirement programme with the objective being to assist departments in managing budget shortfalls resulting from the agreement.

1.3 Subsequently, the Minister for the Public Service and Administration (MPSA) issued early retirement and funding guidelines to all departments at national and provincial spheres of government.

1.4 This document outlines key early retirement criteria, processes, roles and responsibilities for both national departments and provinces to follow in accessing funding from the National Revenue Fund.

2. Eligibility and Funding Criteria

2.1 Funding for early retirement (ER) is directed at the following cases:

a. those identified in the DPSA guideline document titled “criteria to be used in respect of applications for early retirement in terms of section 16(6) of the public service act, 1994, as amended by act 30 of 2007 (“PSA”)
b. employees who are on permanent employment
c. employees of government departments and components at national and provincial spheres of government
d. those on contract or temporary employment and those employed by public entities or municipalities are excluded

2.2 The following items may be funded directly from the fiscus:

a. Resultant pension liability;
b. Encashment of capped leave to the maximum of 160 days (balance to be paid by respective department); and
c. Compensation for medical assistance, as per Determination on Medical Assistance available on the DPSA website.

2.3 The following components must be funded directly by departments:

- Pro-rata service bonus pay;

- Value of the Capped leave over and above 160 days;
- Value of Unused Annual Leave; and
- Resettlement costs, in line with the policy of each departmental, if applicable.

2.4 Where an employee has accrued savings in terms of the Government Employees Housing Scheme (GEHS), such savings will be paid out.

2.5 Allocation of funds is dependent on both need and viability of cases identified.

2.6 Institutions are required to generate permanent savings of at least 50 per cent of the total cost of employment (remuneration packages) of approved exited cases.

3. Submission of Applications Recommended for Central Funding

3.1 Provincial departments are to consolidate and submit all recommended applications and all supporting documentation to the relevant Office of the Premier (OTP) electronically, while national departments are to submit directly to their relevant National Treasury (NT) Budget Analyst.

3.2 The OTP will collate all recommended applications and, together with the relevant Treasury, exercise oversight and quality control. The OTP may delegate all oversight and quality control activities to the relevant Treasury. For national departments, each NT budget analyst will consolidate recommended applications for the relevant function group and exercise oversight and quality control.

3.3 Each sector is to ensure that submissions to the OTP or the relevant NT budget analyst, in the case of national departments, contain at least the following prescribed documents and resources:

a. High level covering motivation describing the impact of recommended applications on service delivery, transformation, skills and capacity to deliver, footprint – narrative on the ER implications on geographical footprint of the department, if applicable, especially at an institution, district, regional or provincial level, and financial plan (costs and savings)

b. Early retirement (ER) funding motivation sheet (National Treasury MS Excel Spreadsheet)

c. Human Resource Budget Plan (HRBP) or equivalent (i.e. funded approved posts list)

d. Any other relevant appendices from department, e.g. Human Resource (HR) plans and Service Delivery Improvement Plans (SDIPs)

4. Assessment of Content of Submissions

4.1 The OTP, together with the relevant Treasury, will conduct an assessment of submitted applications to ensure that they are coherent and reasonable and comply with the requirements of the early retirement circular as issued by the DPSA. For national departments, NT budget analysts are required to conduct the same assessments.

4.2 Assessment of submitted plans should focus on the following at least (as contained in submissions):

4.2.1 Service delivery impact

This relates to whether the sector will be in a position to continue delivering services as per its mandate. Specific focus should be on narrative describing the potential to achieve high-level targets contained in the relevant medium-term strategic documents.

4.2.2 Transformation

This relates to whether the sector will be in a position to meet its demographic and empowerment targets. Specific focus should be on the summary of equity targets contained in the relevant HR plans.

4.2.3 Skills needs and capacity to deliver

This relates to whether the sector will be in a position to retain adequate and requisite skills to deliver on its mandate after implementation of early retirement. Information contained in the HR plan is crucial for this purpose. Focus should be on comparing demand for skills, current situation and situation after implementation of ER.

4.2.4 Financial plan (ER funding motivation sheet)

This relates to whether the sector will be in a position to achieve savings targets required in line with the ER Funding Guidelines.

In assessing the financial plan, specific focus should be on the following:

a. Estimates of costs of each component associated with ER
b. Occupations targeted and associated salary levels
c. Headcount targeted per occupation per salary level
d. Vacant posts targeted for filling, per occupation per salary level
e. Reasonableness of estimates of savings per financial year over the MTEF

While institutions are required to achieve a 50 per cent savings rate, it is to be noted that this rate is arrived at exclusive of the resultant pension liability. The funding motivation template provides more details on how motivations are to be completed.

Care should be taken in the assessment of savings targets as individual sectors have unique characteristics, and some may not be readily amenable to fully achieving the set savings thresholds. However, at an aggregate level, it is government's objective to effect targeted savings and influence a shift in composition of spending away from Compensation of Employees (COE).

It is also to be noted that savings can be achieved by abolishing posts other than those targeted by and funded through the early retirement programme. Overall, managers are allowed to manage their staff establishments in ways that will minimise disruptions to service delivery.

4.2.5 Human Resource Budget Plan (HRBP) or equivalent

Focus relates to whether departments will be in a position to remain within new compensation allocations or limits that may be set by the relevant Treasury considering the savings targets in favour of the relevant revenue fund. Relevant Treasuries are to ensure that compensation allocations or limits are set in order to reduce the composition of spending away from compensation of employees so that funds are released to other critical service delivery areas. These should be enforced and sustained over the MTEF.

In assessing the HRBPs or equivalent, specific focus should be on the effect of the ER plan on the following, at least:

a. Achievement of new compensation allocations or limits as set by relevant Treasuries,
b. Overall span of control,
c. The distribution of frontline to administrative occupations, and
d. Average unit costs per funded post.

4.3 A covering assessment report is to be prepared summarising sectoral submissions with respect to the five areas of assessments referred to above. Overall, submissions to the Central Assessment Committee should be what is agreed amongst relevant stakeholders.

4.4 The OTP and relevant Treasuries should agree on the working arrangements with respect to oversight and quality control of provincial submissions.

5. Submissions to the Central Assessment Committee

5.1 Each province is to consolidate submissions to the Central Assessment Committee for the whole of the province broken down per sector together with the covering assessment report.

5.2 For national departments submissions are consolidated for each function group by the relevant NT budget analyst.

5.3 Submissions to the Central Assessment Committee are composed of the following key documents:

5.2.1 A covering assessment report containing the following key information -

a. service delivery impact - narrative on planned service delivery improvements or enhancements as a result of ER implementation;
b. transformation - narrative on demographic and equity targets, current situation and situation after ER implementation;

c. skills - narrative on the capacity to deliver including skills targets, current situation and situation after ER implementation;
d. financial plan - narrative on the reasonableness of financial estimates and achievement of savings targets; and
e. HRBP or equivalent - narrative on observance of the new compensation allocations or limits and reliability of projections over the MTEF, including sustainability of compensation budgets.

5.2.2 Fully completed ER Funding motivation sheet (National Treasury MS Excel Spreadsheet).

5.2.3 Updated Human Resource Budget Plan or equivalent demonstrating sustainability of revised compensation budget.

5.3 The OTPs are to ensure that relevant Treasuries lodge submissions with the Central Assessment Committee through the relevant NT Intergovernmental Relations (IGR) representative. For national departments the relevant NT function group leader is responsible for lodging submissions with the Central Assessment Committee.

5.4 The NT IGR representative and the relevant national departments NT budget analysts will verify compliance with ER guidelines and associated requirements before onward submission to the Central Assessment Committee for consideration and decision making with respect to funding requests. Focus is on assessment results in the five areas of assessment as contained in the covering assessment report.

5.5 It is recommended that NT IGR representatives and NT function group leaders forward submissions to the Central Assessment Committee electronically on the 15th and 30th of each month or as soon as submissions have been assessed for quality and compliance to the following email address: **ER_funding_requests@treasury.gov.za**.

6. Central Assessment Committee Process

6.1 The role of the Central Assessment Committee is to receive, consider and take funding decisions in relation to submissions from departments and provinces.

6.2 The Central Assessment Committee sits at least once per month depending on the volume of submissions received.

6.3 The Central Assessment Committee can request departmental officials to submit information, reports, documents or data required to perform its work. As such, for provinces, relevant Treasury representatives may be required to motivate and defend specific submissions.

6.4 Funding decisions taken by the Central Assessment Committee are final.

6.5 There is no appeal of the CAC funding decision.

6.5 The Central Assessment Committee will communicate its funding decisions and any other compliance matters with relevant Treasuries/departments regularly through the relevant NT IGR representatives and function group leaders. Communication of approved funding will be executed within one calendar month of the approval being granted.

7. Funds Disbursement Process

7.1 Release of approved funding for departments and provinces will be executed in line with the current budget processes and timelines.

7.2 All approvals of funding requests are communicated by means of an allocation letter, which will also detail specific conditions attached as determined by the Central Assessment Committee.

7.3 Approved funds are disbursed to relevant Treasury for allocation to respective sectors and management only during main and adjustment budget. Where necessary, relevant treasuries will be requested to earmark such allocations.

7.4 Disbursements will be limited to funds required in the relevant financial year. Disbursement of funds for subsequent financial years is conditional on the achievement of ER objectives by the end of each financial year.

7.5 To allow for efficient management of cash, the relevant Treasuries must put procedures in place for consideration of virements related to early retirement as bridging finance before disbursement of central funds is executed.

8. Estimated Savings and Adjustment of Compensation Allocations

8.1 Compensation budgets or limits should be adjusted upfront for all relevant years over the MTEF to the extent of anticipated and agreed savings as per the motivation.

8.2 Savings realised in this way accrue to the relevant revenue fund.

8.3 Relevant Treasuries are to ensure that compensation allocations or limits are agreed with each department to guarantee improvements in composition of expenditure away from compensation of employees.

9. Periodic Monitoring and Reporting

9.1 OTP and PTs are to coordinate quarterly reporting focusing on the following prescribed matters:

a. List of posts per salary level per exit mode per occupation as well as associated average earnings of each of the financial years for the relevant MTEF.
b. List of relevant vacant posts per salary level per occupation that are filled per nature of appointment as well as associated average earnings of each of the financial years for the relevant MTEF.
c. Assessment of realised net savings associated with average unit cost management activities related to the points above.

d. Changes to skills, demographic and equity profiles as well as an assessment of service delivery status as reflected in the covering assessment report.

9.2 The ER funding motivation sheet (National Treasury MS Excel Spreadsheet) should be used for periodic monitoring and reporting of matters prescribed in 9.1 above. Any relevant information on skills, equity and service delivery is to be reported in an annexure accompanying ER funding motivation sheet.

10. Conditions Attached to Approved Funding

10.1 The relevant Treasury should ensure that approved funding is appropriated specifically and exclusively to defray costs associated with early-retirement related costs (as well as relevant costs related to any other exit mode)[i].

10.2 Allocated funds should be spent on transfers and subsidies line item in the Standard Chart of Account.

10.3 Institutions provided with funding will have their baselines reduced upfront by the relevant Treasury to the extent of anticipated and agreed savings as per the motivation. Savings from the reduced baselines will accrue to the relevant revenue fund.

10.4 Institutions with baseline shortfalls will be expected to remain within agreed allocations or limits after implementation of the early retirement programme.

10.5 Institutions not complying with agreed compensation budget limits will be subjected to rules applicable to financial misconduct cases in terms of the Public Finance Management Act and may have funding subtracted from their baselines in subsequent financial years.

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[i] For instance, to achieve set savings thresholds a department could fill a post vacated through ER and effect savings by abolishing a post vacated through normal retirement. The latter post would qualify for central funding of exit-related costs.