CIRCULAR NO. 2 OF 2005

IMPLEMENTATION OF AN INCLUSIVE FLEXIBLE REMUNERATION PACKAGE SYSTEM FOR EMPLOYEES ON SALARY LEVELS 11 AND 12: 1 JULY 2005

INTRODUCTION

1. The State as employer tabled proposals in April 2003 in the PSCBC on the conversion of the current remuneration system for employees on salary levels 11 and 12 to an Inclusive Flexible Remuneration Package System. After several attempts to conclude an agreement, the Employer declared a deadlock and the matter was referred for conciliation in terms of the PSCBC Dispute Resolution mechanisms. After several conciliation meetings the dispute was still unresolved and the Conciliator issued a certificate to the effect. In view of the failure of the Employer and organised labour to conclude an agreement in the PSCBC, the Minister for Public Service and Administration (MPSA) subsequently decided in terms of section 5(5)(b) of the Public Service Act, 1994 to implement the Employer’s offer tabled at the last Conciliation meeting for employees on salary levels 11 and 12.

2. This Circular, therefore, deals with the MPSA’s determination for the implementation of an Inclusive Flexible Remuneration Package System (hereinafter referred to as the dispensation), effective from 1 July 2005, for
employees on salary levels 11 and 12 (hereinafter referred to as MMS members).

SCOPE OF APPLICABILITY

3. The MPSA’s determinations contained in this Circular apply to all MMS members on salary levels 11 and 12 who are appointed in terms of the Public Service Act, 1994 and the Correctional Services Act, 1998.

4. This Circular does not apply to the following categories of MMS members:

   (a) MMS members employed in terms of the South African Police Service Act, 1995 (police members).
   (b) MMS members employed in terms of the Employment of Educators Act, 1998 (Educators).
   (c) MMS members in the National Prosecuting Authority (Prosecutors and Special Investigators on equivalent levels).
   (d) MMS members in the Office of the Public Protector (Investigators and other employees on equivalent levels).
   (e) MMS members employed in terms of the Defence Act, 2002 (military members).

5. The determination of similar dispensations for the MMS members referred to in sub-paragraphs 4(a) to (d) will be dealt with by the Ministers of Safety and Security, Education and Justice and Constitutional Development and the Public Protector respectively. The MPSA’s determination in respect of Defence Act will be dealt with separately.

IMPLEMENTATION

6. The MPSA has determined the following in terms of section 3(3)(c), read with section 5(5)(b) of the Public Service Act, 1994, effective from 1 July 2005:

   (a) Implementation of the dispensation attached as Annexure A for MMS members who are employed in terms of the Public Service Act, 1994 and the Correctional Services Act, 1998.
   (b) The MMS members referred to in sub-paragraph (a) above do not qualify for a Service Bonus, Medical Assistance to Employees or the Home
Owners allowance, as provided for in Parts I, III (paragraph 1) and IV of PSCBC Resolution 3 of 1999 respectively.

(c) MMS members qualify for all other benefits and conditions of service (excluding those referred to in sub-paragraph (b) above), provided they meet the qualifying criteria.

7. This Department will separately make available the remuneration (package) scales for MMS Levels 11 and 12 (full-time and part-time (5/8th and 6/8th) members appointed in terms of the Public Service Act, 1994 and full-time members appointed in terms of the Correctional Services Act, 1998), as well as the translation keys to translate these members to the new dispensation, after the annual cost-of-living adjustment for employees on salary levels 1 to 12, effective from 1 July 2005, has been finalised in terms of PSCBC Resolution 2 of 2004.

THE NEW DISPENSATION AND TRANSITIONAL MEASURES

8. The new dispensation entails a new approach to remunerate MMS members in the Public Service, which has the following advantages for the employer and the MMS member:

   (a) Enhance the control of remuneration costs.

   (b) Assist in efficient planning and budgeting of personnel costs on these levels.

   (c) Ensure that all MMS members benefit equally.

   (d) Enhance departments’ external equality in relation to the labour market.

   (e) Enable MMS members to structure their remuneration packages in terms of their specific individual needs.

9. MMS members will not be negatively affected on translation to the new dispensation.

Remuneration scales and inclusive flexible remuneration packages

10. Two separate remuneration (package) scales will be implemented for MMS Levels 11 and 12 respectively. Each remuneration scale will consist of 16 packages (so-called notches) to provide for pay progression.
Structure of the inclusive flexible remuneration package (hereinafter referred to as the package)

11. The following elements of the pre-revised remuneration and conditions of service are converted into MMS member’s total package.

(a) Salary notch (pensionable income).
(b) Value of the service bonus, calculated on the salary notch.
(c) Employer’s contribution to the Government Employees Pension Fund (GEPF), calculated on the salary notch.
(d) Maximum employer’s contribution to a registered medical aid scheme.
(e) Maximum homeowners allowance.

12. The package of an MMS member admitted to the GEPF consists of three components (pillars), namely the-

(a) basic salary (pensionable income);
(b) employer’s contribution to the GEPF; and
(c) flexible portion (non-pensionable income).

13. The package of an MMS member not admitted to the GEPF (i.e. appointment on a fixed-term contract, and where the contract specifically stipulates the member’s exclusion from the GEPF), does not consist of any components – therefore the total package constitutes the flexible portion.

Basic salary

14. Those MMS members admitted to the GEPF will be afforded a once-off choice to set their basic salary (pensionable income) in the package within certain parameters on translation to the dispensation, effective from 1 July 2005. Therefore, those MMS members will be obliged to exercise their choice in writing in the format to be issued by their departments. Depending on the member’s current salary level, the choice is as follows:
(a) **MMS Level 11**

Setting of the basic salary either at 75% (Set 1) or 70% (Set 2) of the package.

(b) **MMS Level 12**

Setting of the basic salary either at 76% (Set 1) or 70% (Set 2) of the package.

15. The implications of the individual choices to be exercised are as follows:

(a) **Set 1** allows the MMS member to set his or her basic salary, on which the employer’s and the member’s contributions to the GEPF are calculated, at least on the level that prevailed before translation to the dispensation – **therefore the MMS member’s pensionable income is not reduced on translation.** However, this limits the flexible portion of the package that is to be used for structuring certain remunerative allowances/benefits such as a contribution to a registered medical aid scheme, motor vehicle allowance etc. within the current provisions of the Income Tax Act, 1962.

(b) **Set 2** allows the MMS member to set his or her basic salary, on which the employer’s and the member’s contributions to the GEPF are calculated, at a level lower that prevailed before translation to the dispensation – **therefore a reduction in the MMS member’s pensionable income on translation.** However, this increases the flexible portion that is to be used for structuring certain remunerative allowances/benefits such as a contribution to a registered medical aid scheme, motor vehicle allowance etc. within the current provisions of the Income Tax Act, 1962.

(c) This is a **once-off** choice before the MMS member’s package (with structuring thereof) will be implemented on PERSAL. **This choice may not be changed in any way or at any time while the MMS member is being remunerated in terms of the dispensation - not even with promotion/translation from MMS Level 11 to MMS Level 12 or with the awarding of a higher package to the member within his or her remuneration scale,** except in terms of the transitional provision referred to in paragraph 16 hereunder.

(d) Set 1 will be awarded as default if an MMS member fails to exercise his or her choice within the time period specified by his or her department.
16. Due to the impact of an MMS member’s choice, which effects his or her pensionable position in future (effect on retirement and resignation benefits), and to ensure a seamless transition to the dispensation, a transitional provision (grace period) applies for 6 months, commencing on 1 July 2005, in terms of which an MMS member who have chosen Set 2 on implementation may change his or her choice to Set 1 - therefore “undoing” his or her initial choice - subject to the following:

(a) The transitional provision only applies to members who were already in service on salary levels 11 and 12 on 30 June 2005.

(b) Reverting from Set 2 to Set 1 will be effective from 1 July 2005 (therefore with retrospective effect).

(c) An MMS member is obliged to fund the GEPF the difference in the employer’s contribution to the GEPF (provided for in the package) as well as the difference in the member’s own contribution, which accumulated since 1 July 2005.

(d) HR components must receive applications to revert from Set 2 to Set 1 before the expiry of the transitional period (31 December 2005) – late applications will not be entertained.

17. The transitional provision referred to in paragraph 16 above does not apply to members who wish to revert from Set 1 to Set 2 after they have exercised the choice to set their basic salaries at Set 1 on translation to the dispensation.

18. It will be appreciated that the choice that an MMS members must exercise has profound implications on his or her pension position (retirement or resignation benefits) in future. Departments are, therefore, requested to communicate the choice to be exercised, the implications thereof and the transitional provision to every MMS member. This Department has prepared a communiqué for this purpose, highlighting these critical areas. The communiqué is attached to this Circular and departments must address it to each MMS member under cover of a departmental letter.

**Employer’s contribution to the GEPF**

19. The employer’s contribution to the GEPF is calculated on the basic salary and is deducted from the package for this purpose.
Flexible portion

20. The remaining (third) component of the package is the flexible portion, which MMS members may structure in the form of certain remunerative allowances/benefits.

GENERAL

21. The translation of MMS members to the remuneration (package) scales and packages, as well as MMS members’ structuring of the flexible portion, is to be effected at departmental level - it will not be effected programmatically (automatic) by PERSAL. Each member must be informed in writing of his or her revised remuneration scale and package, where after he or she must be afforded the opportunity to structure the package. MMS members must confirm the structuring in writing before departments may implement the package, and the structuring thereof, on PERSAL - signing of a printout of the main page of the Model (spreadsheet) will be sufficient and should be filed accordingly. **Departments are again reminded, as indicated in paragraph 7, that this process can only be initiated after this Department has made available the appropriate remuneration (package) scales and translation keys.**

22. If an MMS member’s translation cannot be dealt with in terms of the standard translation keys (still to be provided), departments must submit a motivated request to this Department (Attention: Remuneration Policy Unit) for an appropriate (individual) translation key.

23. This Department has developed a structuring Model (Excel spreadsheet) to assist MMS members (as well as HR practitioners) to structure the package – the Model is similar to the Model that is currently being utilised by SMS members. The Model can be obtained from this Department’s website ([http://www.dpsa.gov.za](http://www.dpsa.gov.za)) (following the links to Document archive/Circulars/Remuneration) or from the following e-mail addresses:

- Estelle@dpsa.gov.za
- esther@dpsa.gov.za
- robertl@dpsa.gov.za
- braam@dpsa.gov.za

24. PERSAL will continue with MMS members’ deductions in respect of contributions to registered medical aid schemes and bond repayments.

25. MMS members should be encouraged to make use of the services of private remuneration experts to assist them with the structuring of the package, if they require expert advice.
This Department intends to conduct workshops in each province on the implementation of the dispensation. The intention is not only to address HR practitioners in departments who will be responsible for implementing the new dispensation, but also to involve as many MMS members as possible. The Offices of Premiers will be approached in due course to arrange/coordinate these workshops. Furthermore, it is also intended to conduct workshops for national departments in Pretoria. National departments will be informed accordingly in due course.

The expenditure emanating from the implementation of the new dispensation must be defrayed from departmental budgets and, where necessary, requests for additional funds should be included in departments’ adjustment estimates for the 2005/06 financial year.

28. Departments are requested to ensure that the measures that are contained in this Circular and Annexure are implemented correctly. MMS members must be informed in writing that errors would be rectified, and that any amounts that may have been overpaid or underpaid due to errors will be adjusted. Departments are welcome to approach this Department for assistance should they experience any difficulties.

29. Your assistance is appreciated to ensure the successful and seamless implementation of the dispensation.

DIRECTOR-GENERAL
Date: 8 March 2005