



◆ **MINISTRY: PUBLIC SERVICE AND ADMINISTRATION  
REPUBLIC OF SOUTH AFRICA**

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Dear Colleague

**PROBLEMS WITH THE IMPLEMENTATION OF THE NEW FOREIGN SERVICE  
DISPENSATION (FSD) AT MISSIONS**

Thank you for your letter dated 11 July 2005 in the above regard.

Your concerns and the current challenges your Department are experiencing in the administration of the FSD deriving from the fluctuations in the Budget Exchange Rate (BER), were discussed at length at the trilateral meeting between representatives of your Department, my Department and National Treasury (NT) on 5 July 2005. In response to the effects of the strengthening of the Rand against the US dollar, the adjustment of the BER from R9.20 to R6.40 in 2003 and 2005 respectively, as well as the fact that adjustments to Cost of Living Allowances (COLA) key norm amounts were not implemented in April 2004, your Department proposed that an average BER of R7.80 be applied from 1 April 2005. My Department was informed that the Minister of Finance has since approved an amended BER of R7.00 for this purpose.

However, you are advised that the changed BER will not resolve your concerns, since the COLA key norm amounts would still show a reduction compared to the amounts received with the implementation in December 2003.

Considering the above, the DPSA and DFA had to find alternatives on how to deal with this challenge. In this regard, the DPSA thoroughly analysed the current Dispensation, and wishes to highlight, *inter alia*, that the principles of adequacy, equity, simplicity, stability, maintainability, justifiability, affordability and interactivity that underpin the Dispensation, must be protected at all times.

During the above analysis, it was established from Employment Conditions Abroad (ECA) information recently obtained with regard to the definition of cost-to-employer (CTE) packages, that the calculation basis for the determination of COLA key norm amounts for SMS members on levels 13 and 14 was incorrect. In terms of the ECA information, only basic salary plus bonus for SMS levels 13 and 14 should have been used instead of the full CTE packages as implemented with effect from 1 December 2003. This mistake must be corrected prior to any consideration of options to deal with the declining COLAs.

In view of the above, I determined that the calculation for COLA key norm amounts for levels 13 and 14 be corrected and that reparation be made to the effected officials with effect from 1 December 2003. The outcome of this correction is explained at the hand of the examples illustrated below:

**EXAMPLE 1: Cola key norm amounts payable with the implementation of the new FSD from 1 December 2003**

**Before correction:**

CTE package of a Chief Director in the RSA	R472,809 pa
RSA net salary	R278,688 pa
RSA net salary converted to US\$ (BER = R9.20 to US\$)	US\$30,293 pa
US\$ Lower Quartile (LQ) TNCP <sup>1</sup> benchmark amount	US\$83,445 pa
COLA key norm amount payable	US\$53,148 pa*

**After correction:**

Basic salary is 60% of CTE package for a Chief Director	R283,685 pa
RSA net salary	R204,929 pa
RSA net salary converted to US\$ (BER = R9.20 to US\$)	US\$22,276 pa
US\$ LQ TNCP benchmark amount	US\$83,445 pa
COLA key norm amount payable	US\$61,164 pa*

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<sup>1</sup> Total Net Cash Pay benchmark amount as provided by ECA

\* Rounded to be divisible by 12

**EXAMPLE 2: COLA key norm amounts payable with the adjustment of the new FSD from 1 April 2005**

**Before correction:**

CTE package of a Chief Director in the RSA	R533,754 pa
RSA net salary	R317,318 pa
RSA net salary converted to US\$ (BER = R6.40 to US\$)	US\$49,581 pa
US\$ LQ TNCP benchmark amount	US\$87,669 pa
COLA key norm amount payable	US\$38,088 pa*

**After correction:**

Basic salary is 60% of CTE package for a Chief Director	R320,252 pa
RSA net salary	R234,053 pa
RSA net salary converted to US\$ (BER = R6.40 to US\$)	US\$36,571 pa
US\$ LQ + 7.5% TNCP benchmark amount	US\$94,245 pa
COLA key norm amount payable	US\$57,672 pa*

It is apparent that an in-depth investigation needs to be conducted, but since this investigation will not be finalized within this financial year, a short-term solution had to be achieved in order to cushion the negative adjustment of the COLA. Therefore, I, in terms Section 3(3)(c) read with Section 5(4) of the Public Service Act, 1994 determined as an interim measure, that the benchmark at 7.5% above Lower Quartile (LQ) be applied for the calculation of the COLA key norm amounts, to be effective with effect from 1 April 2005.

In view of the fact that NT approval will be required in terms of the implementation of the above determinations in respect of the SMS calculations and the pitching of the benchmark at 7.5% above LQ, the DFA is requested to calculate the financial implications thereof to support the submissions to the relevant principals.

In order to address the above-mentioned challenges, I approved that DPSA, in partnership with DFA, embark on an in-depth investigation with a view to develop a long-term solution. Representatives from DFA and DPSA jointly developed a Project Plan for this envisaged investigation to be considered by their respective principals. It is also requested that the DFA provides funding for the envisaged investigation.

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\* Rounded to be divisible by 12

Since it is foreseen that the variables such as the BER would present similar challenges in respect of the 1 April 2006 adjustment, I also determined the principle and authorized the DPSA to ensure that any changes to the BER may not result in a negative impact on the COLA payable to foreign service officials serving abroad. This will also ensure stability in the maintenance of the current Dispensation until such time that the envisaged review has been finalized.

Kind regards

*G. J. Fraser-Moleketi*  
GERALDINE J FRASER-MOLEKETI  
MINISTER

*2/11/05*