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TO: ALL HEADS OF NATIONAL DEPARTMENTS; PROVINCIAL ADMINISTRATIONS AND DEPARTMENTS

CIRCULAR NO. 01 OF 2019

NOTICE OF A REDUCTION IN THE PERCENTAGE ALLOCATION OF REMUNERATION BUDGETS FOR THE PAYMENT OF PERFORMANCE BONUSES FOR ALL CATEGORIES OF EMPLOYEES WITH EFFECT FROM 1 APRIL 2019:

(I) ALL EMPLOYEES ON SALARY LEVELS 1 TO 12
(II) ALL EMPLOYEES COVERED BY THE OCCUPATION SPECIFIC DISPENSATIONS *(OSDs)*
(III) EMPLOYEES APPOINTED TO THE SENIOR MANAGEMENT SERVICE (SMS)

1. In terms of Regulation 73(3) of the Public Service Regulation, 2016:... "*The Minister (MPSA), shall from time to time determine a percentage of a department's remuneration budget that shall not be exceeded for the purpose of granting performance rewards*". This regulation is also supported by Regulation 73(4), whereby:.... *"The Minister shall from time to time determine the maximum percentage performance reward to be granted to an employee or categories of employees."*

2. The approved *Incentive Policy Framework* (2017), provides that departments may not utilise more than **1.5%** of their annual remuneration budget, (i.e. budget for non-OSD employees on salary levels 1 to 12, all OSD employees and SMS), for the purpose of resourcing departmental financial performance incentive schemes (including payment of performance bonuses). Provision is made in the approved *Incentive Policy Framework* that the maximum percentage of a department's remuneration budget **shall** not be exceeded due to the payment of performance bonuses to all categories of employees.

3. However, given the current financial situation, post the conclusion of the 2018 Wage Agreement and residual costs emanating from this agreement, various cost containment measures have been approved by Cabinet, which include the review of the current *Incentive Policy Framework* for all sectors.

4. It must be noted that the payment of any performance bonus only becomes applicable in terms of the provision of the *Incentive Policy Framework*, and not according the PMDS, meaning that where such provision does not allow for the allocation of any budgeted allocation, **no** performance bonuses can or may be paid, but all performance reviews must still however be conducted in line with the applicable PMDS.

5. However, where there is a reduction in the limit as set by the MPSA from time to time, each department will have to, accordingly *pro rata*, adjust its Incentive Scheme, to tally with the quantum generated by the percentage of their remuneration budget as determined by the MPSA. This ceiling as determined by the MPSA **may not be exceeded** under any circumstances. No deviation in this regard, will be considered by the MPSA.

6. The revised *Incentive Policy Framework* places an obligation on departments to revise their generic formula, on how to calculate the allocation of individual bonuses within the reduced percentage limits for the current MTEF.

7. Coupled with other challenges experienced within the public service, whereby certain departments have consistently failed to comply with section 16A of the Public Service Act, with the application of the limits sets in the provision of the Incentive Policy Framework directive, it has therefore become necessary to determine such measures that will assist in managing the unaffordable growing wage bill.

8. The inconsistent application of differing Performance Management and Development Systems (PMDSs) amongst departments and sectors, which has resulted in the payment of performance bonuses based on a localised departmental incentive scheme, irrespective of the actual performance of that department or fairness in the application of the system, has necessitated a comprehensive review of what should actually constitute a defensible Incentive Scheme going forward.

9. It is for the above reasons, that the MPSA has approved the ***decremental adjustment of the percentage that can be allocated from the remuneration budget for the payment of performance bonuses,*** as tabulated below, for ALL categories of employees, which is also applicable to members of the SMS.

10. This means that the maximum percentage for a budgeted provisioning for performance rewards is set out as follows for the indicated financial years:

Financial Year	Maximum % of Remuneration Budget
2018-19	**1.5 %**
2019-20	**0.75%**
2020-21	**0.5%**
2021-22	**0%**
Post 2022	To be determined based on the Comprehensive Review of ALL PMDSs for ALL categories of Employees

11. Therefore, the maximum performance reward to be granted to any employee or categories of employees shall be set within the respective percentages as indicated above, for the awarding of performance bonuses as of the financial years 2018/19; 2019/20; 2020/21 and 2021/22. This means that Executive Authorities (EAs) only have the authority to pay any performance bonus in the subsequent three financial years (2019/20, 2020/21 and 2021/22), based on the **decreased** limits set by the MPSA directive, until the revised norms and standards for PMDSs have been concluded which standardises incentive schemes for all sectors.

12. During this period, a comprehensive review of all PMDSs for all categories of employees will be undertaken, which must ensure a link of standard PMDS indicators to a measure of productivity within the Public Service, as the Public Service is a single resource employer for the allocation of remuneration budgets to all sectors. All PMDSs must also delink the performance outcome measures to any notion to an automatic reward system. Any delinked Incentive Scheme should ideally stipulate what factors should inform how rewards, both monetary and non-monetary should be allocated, in order to remove any subjectivity and ensure fairness by rewarding productivity and innovation, which is not mere compliance to an agreed upon output from a work-plan.

13. However, as a ***transitional measure***, the finalisation of any payment of outstanding performance rewards as a result of the outcome of a moderation process, in line with the approved Incentive Policy Framework, which was applicable for the previous performance cycles, must be finalised and paid within the financial year 2019/20. Any residual cases from previous performance assessment cycles, must also be finalised not later that the end of financial year 2019/20. This must and can only be done, within the limits of **1.5%** ceiling of the remuneration budget provision for 2018/19 cycle, and **0.75%** for 2019/20 cycle, in terms of the applicable Incentive Policy Framework.

14. It must be emphasised that the recognition of meritorious performance after a performance review, must still be institutionalised, and the use rather of non-financial rewards in terms of departmental incentive policies is therefore encouraged.

15. It must be noted that the percentage limitation of remuneration budget as specified in this circular, is only applicable for the awarding of performance bonuses, and is not applicable for the granting of pay and/or grade progression, as specified in the approved Incentive Policy Framework.

16. Departments are hereby instructed to hereby amend their internal administrative policies to be aligned to the revised directive, which is elucidated in this circular.

17. Departments must ensure that all employees in their respective departments are informed accordingly to the contents of this circular.

18. The following persons in DPSA can be contacted for clarity on all issues elucidated in this circular:

    18.1. Ms Theresa Maile at (012) 336 1130, e-mail: teresam@dpsa.gov.za

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DIRECTOR-GENERAL
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