

# 12

## Managing municipal personnel

### ■ Introduction

Municipal expenditure on personnel comprises 30 per cent of aggregated operational expenditure by municipalities. Levels of municipal employment have declined, while vacancy rates and the average cost of employment have risen. However, there exist divergent employment and personnel expenditure trends within and between the different categories of municipalities that are masked by the aggregate figures.

*Municipal expenditure on personnel comprises 30 per cent of operating expenditure*

Municipal employees and the skills they bring to the workplace are a critical input in the delivery of all services a municipality delivers. The objective of managing municipal personnel is therefore not necessarily to minimise the “wage bill”, but rather to ensure that people with the required skills are recruited, retained and appropriately deployed.

Generally, expenditure on personnel is notoriously difficult to restructure, even over the medium-term. Therefore any interventions aimed at changing the way a municipality manages its employees and allocates its personnel budget, need to be thoroughly thought through, as such interventions typically have long-term impacts on municipal finances, delivery and the livelihoods of individuals and households.

A key issue that this chapter explores is the link between the observed trends in employment, personnel expenditure numbers and the choices municipal managers are making in relation to the adoption of labour intensive versus capital intensive approaches to delivering services.

It is common knowledge that municipal services differ widely in terms of their skills and labour intensity. Some, by nature, require high-level skills, such as planning, others are skills and capital intensive, such as

electricity and water distribution and others are labour intensive such as waste removal. However, in many instances municipalities can choose whether to use more capital intensive or more labour intensive technologies to perform a particular activity or deliver a particular service. It is important to know which way these decisions are going and why.

*Municipalities contribute directly to economic growth by providing a range of essential services*

Municipalities contribute directly to economic growth by providing a range of essential services to households, commercial enterprises, industries and institutions, such as schools and hospitals. Municipalities can increase their contribution to economic growth by improving the reliability, quality and efficiency of these services. This involves getting the overall mix between expenditure on personnel and other inputs right. It also means getting the skills mix right – an appropriate balance between managers, technical personnel and others, with vacancies kept to a minimum. Finally, it involves increasing productivity to reduce the unit cost of municipal services.

By providing indigent households with access to free or subsidised services, municipalities contribute directly to alleviating poverty. However, where municipalities choose to use labour intensive approaches their contribution to combating poverty is even greater. By extending formal and temporary employment opportunities, particularly to those with limited skills, municipalities are, in essence, providing people with fishing rods and not just fish.

This chapter gives an overview of:

- the various trends local government employment
- the implications for local government's role in fostering economic growth and combating poverty and efforts to strengthen financial management capacity
- employment data and personnel expenditure trends across municipalities and their various functions
- the factors that influence the contribution of municipalities to job creation.
- the progress towards the establishment of a single public service.

## ■ Trends in local government employment

In 2006, overall, municipalities employed some 200 000 people and contributed 1.6 per cent to employment (official definition). In the 70 mostly rural municipalities, municipal employment contributed only 0.7 per cent to employment. This is substantially less than in the metros, secondary cities and towns.

*Overall municipalities' contribution to employment is relatively modest*

Overall, it is evident that municipalities' contribution to employment is relatively modest and is significantly greater in the metros than in rural areas. This would seem to contradict the received wisdom that in small towns and rural areas municipalities are the primary employers. These trends are shown in table 12.1.

**Table 12.1 Local government's contribution to employment in South Africa by category of municipality, 2006**

Category	Employment (official definition)	Local government employment (2006)	Percentage of total employment
<b>Number</b>			
Category A (Metros)	5 764 855	100 203	1.7%
Category B (Locals)	6 573 875	93 305	1.4%
<i>Secondary cities - 21</i>	2 372 824	35 309	1.5%
<i>Towns - 140</i>	2 530 086	46 113	1.8%
<i>Mostly rural - 70</i>	1 670 965	11 883	0.7%
Category C (Districts)	25 536	10 226	
<b>Category B + C</b>	<b>6 599 411</b>	<b>103 531</b>	<b>1.6%</b>

Source: Stats SA, Non-financial census of municipalities for the year ended 30 June 2006, (P9115 - 2007)

The provincial data shows significant disparities. In Limpopo there is only one municipal job for every hundred formal sector jobs. By contrast there are two and a half times more municipal jobs per hundred formal sector jobs in Northern Cape. Municipal jobs are also twice as prevalent in Eastern Cape and Western Cape, compared to Limpopo.

*The provincial data shows significant disparities*

**Table 12.2 Local government's contribution to employment in South Africa by province, 2006**

Province	Employment (official definition)	Local government employment (2006)	Percentage of total employment
<b>Number</b>			
Eastern Cape	1 108 460	23 624	2.1%
Free State	710 963	12 039	1.7%
Gauteng	3 691 722	61 064	1.7%
KwaZulu-Natal	2 185 477	33 486	1.5%
Limpopo	818 818	8 237	1.0%
Mpumalanga	886 506	10 678	1.2%
Northern Cape	269 000	6 779	2.5%
North West	783 596	10 898	1.4%
Western Cape	1 909 724	36 929	1.9%
<b>Total</b>	<b>12 364 266</b>	<b>203 734</b>	<b>1.6%</b>

Source: Stats SA, Non-financial census of municipalities for the year ended 30 June 2006, (P9115 - 2007)

Indeed, municipalities' contribution to formal employment is far more limited in Limpopo, Mpumalanga and North West than in other parts of the country. It would seem that these trends reflect the historical under-development of local government in the former Transvaal and to a lesser extent the rural areas of KwaZulu-Natal. It is anticipated that as municipalities in these areas mature, the number of people they employ will need to increase substantially.

### Growth in local government employment

Previous chapters have indicated that spending by municipalities has increased significantly over the past five years. To what extent has this translated into municipalities expanding their operations? Has there

been commensurate growth in municipal employment? Or is the increased expenditure being used to increase salaries of existing staff, rather than expand employment? Unfortunately, a consistent dataset tracking municipal employment over the last five years is not available. Nevertheless, table 12.3 shows changes in municipal employment numbers between 2005 and 2006. Over this period, the increases in municipal spending have not translated into increased employment. Table 12.3 shows that employment has decreased, while the average cost of employment is in fact increasing.

**Table 12.3 Total employment in local government by category and by metro, 2005 and 2006**

Number	2005 Total employment	2006 Total employment	Jobs gained (+) and lost (-)
<b>By category of municipality</b>			
Category A (Metros)	101 774	100 203	-1 571
Category B (Locals)	95 474	93 305	-2 169
<i>Secondary cities - 21</i>	34 765	35 309	544
<i>Towns - 140</i>	44 455	46 113	1 658
<i>Mostly rural - 70</i>	16 254	11 883	-4 371
Category C (Districts)	9 018	10 226	1 208
Category B + C	104 492	103 531	-961
<b>Total</b>	<b>206 266</b>	<b>203 734</b>	<b>-2 532</b>
<b>By metro</b>			
City of Cape Town	23 605	22 322	-1 283
City of Johannesburg	25 340	26 274	934
City of Tshwane	13 643	12 297	-1 346
Ekurhuleni	14 065	14 688	623
eThekweni <sup>1</sup>	18 067	18 067	-
Nelson Mandela Bay	7 054	6 555	-499
<b>Total</b>	<b>78 169</b>	<b>77 881</b>	<b>-288</b>

1. The 2005 data for eThekweni was incomplete and so has been replaced with the 2006 data.

Source: Stats SA, Non-financial census of municipalities for the year ended 30 June 2006, (P9115 - 2007)

*Some job losses can be attributed to increasing mechanisation of service delivery systems*

Overall, 2 532 fewer people were employed by municipalities in 2006 than in 2005. This is a decrease of some 1.2 per cent, which is somewhat surprising since it would have been expected that municipal employment should increase in response to the demand for services. Some of the job losses can probably be attributed to increasing mechanisation of service delivery systems – a trend which is discussed in greater detail below.

Employment by category B municipalities shows a decline of 2 169 employees or 2.3 per cent between 2005 and 2006, while in the 70 mostly rural municipalities there is a decline in employment of 4 371 or nearly 27 per cent. In the case of the mostly rural municipalities, part of the decline can probably be attributed to incomplete reporting. Nevertheless, the sheer magnitude is indicative of the fact that these municipalities are experiencing serious difficulties in retaining personnel.

The number of employees employed by the City of Tshwane declined by 1 346 or nearly 10 per cent between 2005 and 2006. Nelson Mandela Bay's workforce declined by 7.1 per cent and the City of

Cape Town's by 5.4 per cent between 2005 and 2006. It is possible that part of these reductions in employment among the metros can be attributed to ongoing programmes to rationalise organisational structures following the amalgamation of municipalities in the demarcation process in 2000. However, it is more likely that what appears as a reduction in employment among metros reflects a shift of employment from municipalities to contractors as a consequence of outsourcing. This issue needs to be addressed when collecting data on municipal employment in future.

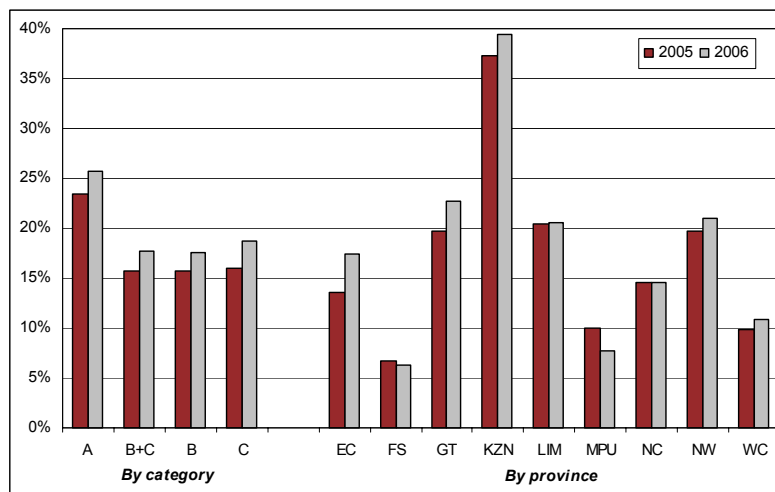
### Vacancies in local government

"Lack of capacity" is one of the perennial explanations for shortcomings in municipal service delivery. Core to this capacity problem are the very high vacancy rates in local government, which are aggravated by the job losses noted above.

*Very high vacancy rates in local government*

Unsurprisingly therefore, figure 12.1 shows that the percentage of vacancies in local government increased virtually across the board between 2005 and 2006.

**Figure 12.1 Vacant local government positions, 2005 and 2006**



Source: Stats SA, *Non-financial census of municipalities for the year ended 30 June 2006, (P9115 - 2007)*

In 2005, there were 256 885 positions in local government, of which 50 619 or 19.1 per cent were vacant. In 2006, the number of positions increased to 260 744, of which 57 010 or 21.9 per cent were vacant.

In 2006, the vacancy rate among the metros was above 25 per cent. By contrast, the vacancy rate among category B and C municipalities was 17.7 per cent and among the 70 mostly rural municipalities it was 16.6 per cent. These differences seem to contradict the general view that the smaller municipalities are finding it more difficult to fill vacant positions than the large metros, although this probably still applies to vacancies for skilled personnel.

Figure 12.1 also shows that in 2006, vacancy rates were highest in KwaZulu-Natal at 39.4 per cent, followed by Gauteng at 22.7 per cent, North West at 20.9 per cent and Limpopo at 20.6 per cent. The lowest vacancy rates are in Free State at 6.3 per cent, followed by Mpumalanga and Western Cape. It is not clear what is driving these differences among municipalities located in different provinces. Why, for instance, are vacancy rates among municipalities in Limpopo twice as high as those located in Mpumalanga?

*Evaluating vacancy rates in municipalities is a complex task*

While the information in figure 12.1 seems to be fairly clear cut, evaluating vacancy rates in municipalities is not that simple. The following table presents employment information for category B and C municipalities, collected by the Municipal Demarcation Board, which highlights some of the difficulties.

First, a vacancy only has meaning in the context of an up-to-date organisational structure that has been approved by its council. Such an organisational structure reflects the number of approved positions that the council deems necessary to deliver the services for which it is responsible. However, in most instances the organisational structures are dated or inadequate. So in 2006, the actual staff requirements of category B and C municipalities may in fact have been far greater than the 134 643 approved positions reflected in table 12.4.

**Table 12.4 Vacancies in category B and C municipalities, 2006/07**

Number	2006/07				Appointments to non-existent positions <sup>1</sup>
	Currently employed	Approved positions	Funded vacancies	Unfunded vacancies	
<b>By category of municipality</b>					
Category B (Locals)	108 575	120 567	16 875	26 286	31 169
<i>Secondary cities - 21</i>	52 321	51 585	7 471	15 743	23 950
<i>Towns - 140</i>	45 212	53 021	7 602	6 898	6 691
<i>Mostly rural - 70</i>	11 042	15 961	1 802	3 645	528
Category C (Districts)	11 585	14 076	2 920	1 536	1 965
<b>Category B + C</b>	<b>120 160</b>	<b>134 643</b>	<b>19 795</b>	<b>27 822</b>	<b>33 134</b>
<b>By province</b>					
Eastern Cape	15 158	19 295	2 511	7 531	5 905
Free State	14 244	17 780	3 037	3 766	3 267
Gauteng	7 856	10 317	600	2 213	352
KwaZulu-Natal	17 063	21 236	4 921	4 218	4 966
Limpopo	8 683	12 697	1 373	2 855	214
Mpumalanga	25 820	13 646	2 590	1 813	16 577
Northern Cape	6 106	7 364	864	790	396
North West	10 574	14 666	1 932	2 157	-3
Western Cape	14 656	17 642	1 967	2 479	1 460
<b>Total</b>	<b>120 160</b>	<b>134 643</b>	<b>19 795</b>	<b>27 822</b>	<b>33 134</b>

1. Calculated as follows: (currently employed + funded vacancies + unfunded vacancies) - approved positions

Source: Municipal Demarcation Board, Capacity assessment report, 2006/07

*A municipal council may approve an organisational structure, but invariably may only be able to fund a certain percentage of the positions*

Second, a municipal council may approve an organisational structure, but invariably may only be able to fund a certain percentage of the positions. Those positions that are funded but not filled are referred to as funded vacancies, while the remainder are unfunded vacancies. Table 12.4 shows that in aggregate just over 20 per cent of the approved positions in municipalities are unfunded. In Eastern Cape

nearly 40 per cent of approved positions are unfunded, while in Northern Cape about 11 per cent of approved positions are unfunded. The proportion of unfunded positions may indicate either the extent of the resource shortfall faced by a municipality in meeting its service delivery obligations, or that the municipality's organisational structure is too ambitious.

Lastly, table 12.4 indicates that about 28 per cent of municipal employees are appointed to non-existent positions, i.e. positions not reflected on the municipality's organisational structure. The practice appears to be very widespread among municipalities in Mpumalanga, where more than 60 per cent of municipal employees are appointed to positions not reflected on municipal organisational structures. This may explain the relatively low vacancy rate in this province. The practice is also prevalent among municipalities in the Eastern Cape (39 per cent), KwaZulu-Natal (29 per cent) and Free State (23 per cent). This practice may point to problems with municipalities' organisational structures in that they are not aligned to what the municipalities do in practice because they are either out of date, or poorly designed. However, it also reflects non-compliance with the legislation governing the updating of organisational structures and the procedures for making municipal appointments.

When analysing vacancies, one also needs to pay attention to vacancies in key positions within the management structure of a municipality, in positions requiring critical technical skills and other vacancies. This aspect is addressed below.

## ■ Getting the personnel mix right

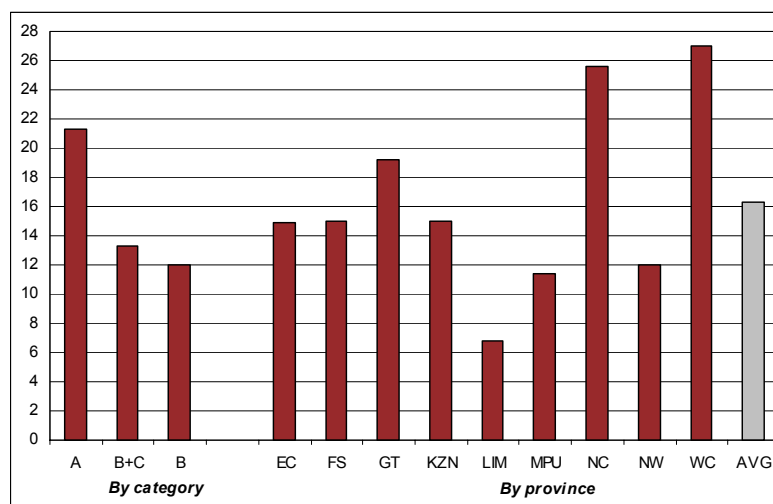
A municipality needs sufficient workers and the right skills mix to deliver services effectively. On the issue of sufficient workers the following figure compares the number of municipal workers per 1 000 households by category of municipality and by province.

*A municipality needs sufficient workers and the right skills mix to deliver services effectively*

Figure 12.2 shows that in the metros there were on average about 21 municipal workers per 1 000 households in 2006, compared to 13 municipal workers per 1 000 households for category B and C municipalities added together. This large difference can probably be attributed to three factors, first, the metros are responsible for a wider range of functions than are the category B and C municipalities combined. For instance, the metros have significant policing responsibilities. Second, managing service delivery in a metro environment is more complicated and therefore requires a wider range of skills and thus more employees. Third and probably most significantly, households are only one of the categories of clients that municipalities serve. Municipalities also deliver services to commercial enterprises, industries and institutions. In the metros these latter clients represent a higher proportion of the client base than in most category B municipalities. The additional personnel required to serve these other clients artificially raise the average number of workers per 1 000 households for the metros.



**Figure 12.2 Number of municipal workers per 1 000 households, 2006**



Source: Stats SA, Non-financial census of municipalities for the year ended 30 June 2006 (P9115 - 2007)

It would therefore be more useful to compare staffing levels in this way across municipalities with similar functions and similar client profiles. For instance, the City of Cape Town employs nearly 25 workers per 1 000 households, while Ekurhuleni and the City of Tshwane employ just more than 17 workers per 1 000 households. It would require a more detailed analysis than is possible here to understand these differences.

Despite the above caveats, the fact that there are on average only about 7 municipal workers per 1 000 households in Limpopo and about 11 and 12 in Mpumalanga and North West respectively, does suggest that staffing levels among the municipalities in these provinces may be inadequate. This seems to be true, especially, when compared to the 26 and 27 municipal workers per 1 000 households in Northern Cape and Western Cape respectively. The differences between provinces can probably be attributed to the historic underdevelopment of local government structures in the former Transvaal (excluding Gauteng). It also confirms that municipalities in Limpopo, Mpumalanga and North West can be expected to increase the number of staff they employ.

### Employment trends in key sectors

*Getting the right mix of skills means striking an appropriate balance between managers, technical personnel and others*

Getting the right mix of skills means striking an appropriate balance between managers, technical personnel and others, particularly in the key sectors. National Treasury is in the process of gathering municipal employment data to complement the financial information now available. This information will facilitate an analysis of the mix of personnel employed by municipalities. In the meantime the data currently available only allows for an analysis of the distribution of staff and personnel expenditure between sectors.

Table 12.5 shows the percentage of staff employed in key sectors by category of municipality, by metro and by province in 2006.



**Table 12.5 Percentage of municipal workers employed in key sectors, 2006**

Number	Headcount of municipal workers	Financial administration	Electricity	Water	Sewerage/ Sanitation	Refuse removal	Other
<b>By category of municipality</b>							
Category A (Metros)	100 203	11.6%	9.1%	8.5%	1.0%	8.7%	61.1%
Category B (Locals)	93 305	15.7%	6.4%	6.2%	6.3%	12.6%	52.9%
<i>Secondary cities - 21</i>	35 309	13.3%	8.0%	6.9%	6.7%	13.1%	52.0%
<i>Towns - 140</i>	46 113	16.7%	6.0%	5.6%	6.6%	12.7%	52.4%
<i>Mostly rural - 70</i>	11 883	18.4%	3.1%	6.6%	3.8%	10.6%	57.4%
Category C (Districts)	10 226	25.5%	0.1%	19.6%	1.4%	0.7%	52.7%
Category B + C	103 531	16.6%	5.8%	7.5%	5.8%	11.4%	52.9%
<b>Total</b>	<b>203 734</b>	<b>14.1%</b>	<b>7.4%</b>	<b>8.0%</b>	<b>3.5%</b>	<b>10.1%</b>	<b>56.9%</b>
<b>By metro</b>							
City of Cape Town	22 322	15.6%	9.1%	9.0%	2.1%	9.8%	54.3%
City of Johannesburg	26 274	7.8%	7.4%	10.1%	0.0%	14.8%	59.9%
City of Tshwane	12 297	17.6%	15.2%	6.4%	0.0%	0.0%	60.9%
Ekurhuleni	14 688	6.5%	6.1%	6.2%	0.8%	6.1%	74.3%
eThekweni	18 067	9.1%	9.5%	9.4%	0.0%	6.9%	65.0%
Nelson Mandela Bay	6 555	19.8%	9.9%	6.3%	6.7%	7.6%	49.6%

Source: Stats SA, *Non-financial census of municipalities for the year ended 30 June 2006, (P9115 - 2007) and Community Survey 2007*

Nationally, about 32 per cent of municipal staff are directly involved in delivering the key services of electricity, water and sanitation and waste removal. A further 14 per cent are involved in financial administration, much of which is closely linked to the effective delivery of these key services. What is interesting is that despite the metros being responsible for a wider range of functions, the percentage of metro staff in these four areas is not significantly lower than among the category B and C municipalities combined. It is, however, notable that among category B municipalities the percentage of staff working on financial administration increases as the size of the municipality decreases. This points to the fact that there are economies of scale in financial administration.

*Nationally, about 32 per cent of municipal staff are directly involved in delivering the key services of electricity, water and sanitation and waste removal*

Probably the most noteworthy point emerging from the table 12.5 is the fact that over 25 per cent of the 10 226 staff employed by district municipalities are in financial administration, which at the time would have involved the administration associated with the regional services council levies. It would be important to track what has happened to this staff component since the scrapping of these levies. More broadly, it must certainly raise questions about the institutional efficiency and even the continued relevance of category C municipalities.

Comparing the information on the metros raises interesting questions about their relative efficiency:

- Is Ekurhuleni inherently more efficient than the other metros given that only 26.2 per cent of its staff are involved in delivering the five key functions noted in the table, whereas for the other metros it is between 35 and 50 per cent?
- Why does Nelson Mandela Bay require 19.8 per cent of its staff to perform financial administration while just 7.8 per cent is sufficient for the City of Johannesburg?

- Is outsourcing more efficient than keeping the function in-house? For instance, the City of Tshwane reports that none of its staff are involved in waste removal. Has outsourcing brought substantial job creation and efficiency benefits for the ratepayers of the City of Tshwane relative to say the City of Johannesburg, where nearly 15 per cent of staff work in the refuse removal function?

Answering these types of questions would require a detailed study of the functions and service delivery arrangements across municipalities. Such comparative analysis would certainly be very useful.

*It is important to determine whether key functions are adequately staffed*

However, given existing service delivery pressures it is probably more important at this stage to determine whether these key functions are adequately staffed. The existing data may point to municipalities where there may be inadequate staffing levels, but to answer the issue definitively requires clear staffing benchmarks for each of the functions, information on the distribution of functions and a detailed analysis of each municipality. Getting clear information on this aspect of capacity needs to be given far more attention than it has received to date.

### Filling key positions

*The positions of municipal manager and chief financial officer are critical to sound corporate governance and effective management*

The positions of municipal manager and chief financial officer are critical to sound corporate governance and the effective management of the municipality. The first priority of every mayor and municipal council should be to ensure that these two critical positions are filled by appropriately qualified officials, who are able to lead the administrative side of the municipality effectively. Chapter 11 discusses trends in the filling of these critical positions.

Section 57 of the Municipal Systems Act (2000) specifies that all managers who report directly to the municipal manager must be subject to an annual performance agreement. These managers are directly responsible for the different service delivery units/departments within a municipality. Table 12.6 shows information on section 57 manager posts by province.

**Table 12.6 Filled and vacant posts for section 57 managers, 2006 and 2007**

Section 57 posts	September 2006			September 2007		
	Total posts	Total posts filled	% Vacant posts	Total posts	Total posts filled	% Vacant posts
Eastern Cape	194	173	10.8%	232	205	11.6%
Free State	140	126	10.0%	174	117	32.8%
Gauteng	187	153	18.2%	193	170	11.9%
KwaZulu-Natal	235	197	16.2%	324	293	9.6%
Limpopo	183	175	4.4%	190	145	23.7%
Mpumalanga	121	94	22.3%	121	110	9.1%
Northern Cape	143	105	26.6%	143	105	26.6%
North West	172	144	16.3%	152	125	17.8%
Western Cape	171	151	11.7%	139	117	15.8%
<b>Total</b>	<b>1 546</b>	<b>1 318</b>	<b>14.7%</b>	<b>1 668</b>	<b>1 387</b>	<b>16.8%</b>

*Source: Department of Provincial and Local Government, 5YLGSA Provincial Progress Report, October 2007*

Between 2006 and 2007 the total number of section 57 manager posts increased from 1 546 to 1 668 posts or by 8 per cent. This is despite the fact that municipalities in Western Cape and North West shed 52 posts between them. Despite their being 122 more posts available, the number of officials appointed to these positions only increased by 69. Consequently the vacancy rate increased from 14.7 per cent in 2006 to 16.8 per cent in 2007. In September 2007 the vacancy rates in these posts were highest in Free State (32.8 per cent), Northern Cape (26.6 per cent) and Limpopo (23.7 per cent). In both Free State and Limpopo new posts were created between 2006 and 2007, but the number of filled posts declined. It is not clear why this happened.

Unfortunately, the fact that a position is filled does not necessarily mean the incumbent has the requisite skills to carry out the responsibilities of the position. The Municipal Demarcation Board conducts detailed capacity assessments of category B and C municipalities on an ongoing basis<sup>1</sup>.

*The fact that a position is filled does not necessarily mean the incumbent has the requisite skills*

On the issue of filling key positions it would be useful to have detailed information on the number of posts on municipal organisational structures requiring specific professional or technical qualifications and how many of these critical posts are vacant.

In the absence of this detailed information, table 12.7 presents information on the total number of positions filled in key sectors and the vacancy rates in these sectors. This information covers professional, technical and ordinary positions.

**Table 12.7 Filling positions in key sectors, 2005 and 2006**

Number	2005			2006		
	Total positions	Positions filled	Percentage positions vacant	Total positions	Positions filled	Percentage positions vacant
<b>By category of municipality</b>						
Category A (Metros)	132 952	101 774	23.5%	134 948	100 203	25.7%
<i>Financial administration</i>	13 261	11 518	13.1%	13 858	11 617	16.2%
<i>Electricity</i>	11 272	9 310	17.4%	12 787	9 116	28.7%
<i>Water</i>	8 829	6 404	27.5%	12 992	8 471	34.8%
<i>Sewerage/Sanitation</i>	2 711	2 565	5.4%	1 155	1 031	10.7%
<i>Refuse removal</i>	11 073	9 454	14.6%	10 491	8 708	17.0%
<i>Other</i>	85 806	62 523	27.1%	83 665	61 260	26.8%
Category B + C	123 933	104 492	15.7%	125 796	103 531	17.7%
<i>Financial administration</i>	19 194	16 259	15.3%	19 986	17 208	13.9%
<i>Electricity</i>	7 457	6 287	15.7%	7 286	5 974	18.0%
<i>Water</i>	9 416	7 856	16.6%	9 416	7 856	16.6%
<i>Sewerage/Sanitation</i>	7 972	6 722	15.7%	7 972	6 583	17.4%
<i>Refuse removal</i>	13 514	12 106	10.4%	13 439	11 797	12.2%
<i>Other</i>	66 380	55 262	16.7%	67 697	54 113	20.1%
<b>Total</b>	<b>256 885</b>	<b>206 266</b>	<b>19.7%</b>	<b>260 744</b>	<b>203 734</b>	<b>21.9%</b>

Source: Stats SA, Non-financial census of municipalities for the year ended 30 June 2006, (P9115 - 2007)

<sup>1</sup> For further details, readers are referred to the National report on local government capacity: District and local municipalities: 2006/07 which is available on the Municipal Demarcation Board's website, [www.demarcation.org.za](http://www.demarcation.org.za).

While the vacancy rates in these key sectors are uniformly high, they tend to be lower than the vacancy rates of the “other” category. This suggests municipalities are giving priority to filling positions in the key sectors, as indeed they should. Among the metros, the vacancy rates for 2006 are highest for electricity and water, which points to a severe shortage of workers with skills relevant to these sectors.

## ■ Trends in personnel expenditure

Total municipal expenditure on personnel increased from R22.2 billion in 2003/04 to R29.3 billion in 2006/07 and is projected to increase to R38.4 billion by 2009/10. In other words, personnel expenditure increased at an annual rate of 9.8 per cent between 2003/04 and 2006/07 and is set to increase by an average annual 9.5 per cent over the MTEF period. This is consistent with the growth in total expenditure by municipalities.

**Table 12.8 Municipal personnel expenditure by category, 2003/04 – 2009/10**

R million	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	% average annual growth	
		Outcome		Estimate	Medium-term estimates			2003/04 – 2006/07	2006/07 – 2009/10
Category A (Metros)	13 011	13 673	14 267	16 219	18 416	19 590	20 637	7.6%	8.4%
Category B (Locals)	8 044	9 124	10 060	11 293	13 634	14 110	15 002	12.0%	9.9%
<i>Secondary cities - 21</i>	3 567	4 053	4 347	5 036	5 640	5 821	6 220	12.2%	7.3%
<i>Towns - 140</i>	3 469	3 861	4 283	4 551	5 712	5 978	6 344	9.5%	11.7%
<i>Mostly rural - 70</i>	1 008	1 209	1 430	1 706	2 281	2 312	2 437	19.2%	12.6%
Category C (Districts)	1 117	1 424	1 642	1 800	2 770	2 654	2 794	17.2%	15.8%
Category B + C	9 162	10 548	11 703	13 093	16 404	16 765	17 795	12.6%	10.8%
<b>Total</b>	<b>22 173</b>	<b>24 221</b>	<b>25 970</b>	<b>29 311</b>	<b>34 820</b>	<b>36 354</b>	<b>38 433</b>	<b>9.8%</b>	<b>9.5%</b>

Source: National Treasury local government database

*There are disparities in the growth of personnel expenditure across the municipalities*

There are, however, significant disparities in the growth of personnel expenditure across the municipalities. Personnel expenditure is growing fastest in category C municipalities: between 2003/04 and 2006/07 it grew by an average annual 17.2 per cent and is set to increase by a further average annual 15.8 per cent over the MTEF period. This compares to category B municipalities, where personnel expenditure grew by an average annual 12 per cent between 2003/04 and 2006/07 and is planned to increase by an average annual 9.9 per cent between 2006/07 and 2009/10. There are even lower growth rates for the metros, where personnel expenditure grew by an average annual rate of 7.6 per cent between 2003/04 and 2006/07 and is set to increase by an average annual 8.4 per cent over the MTEF period. If the rapid growth in personnel expenditure among category C municipalities was commensurate with the increase in their overall expenditure, there would be little reason for concern, however, this is not the case.

*As the rural and district municipalities mature they will need to employ more staff*

Among category B municipalities, personnel expenditure is growing most rapidly in the 70 mostly rural municipalities. Between 2003/04 and 2006/07 it grew at an average annual rate of 19.2 per cent and is set to increase by an average annual 12.6 per cent over the MTEF period. The anticipated growth in personnel expenditure among both the rural municipalities and the district municipalities supports the

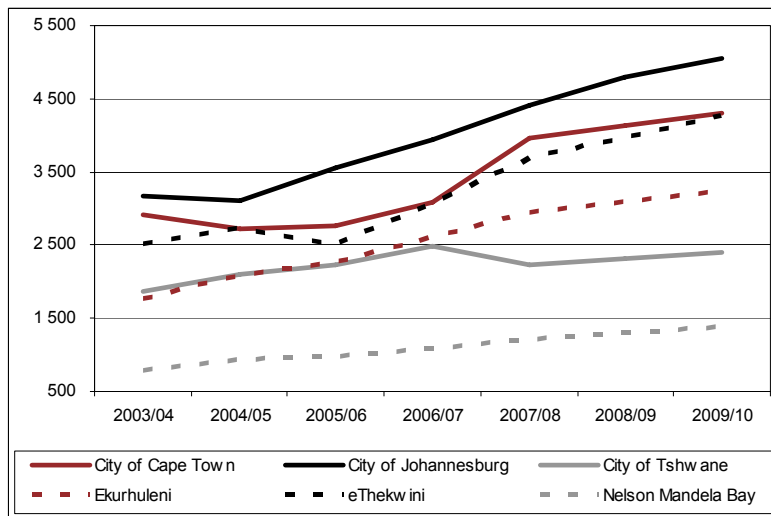
view that as these municipalities mature they will need to employ more staff, especially those municipalities that have been assigned key functions such as water and sanitation.

Figure 12.3 shows personnel expenditure by metro for the period 2003/04 to 2009/10. In this figure, the trend lines for Nelson Mandela Bay and Ekurhuleni show fairly uniform growth in personnel expenditure over the period. Those for the other metros show uneven trends, in some instances even declines in personnel expenditure between years. The three most significant instances of this nature are:

- a R255 million decline between 2006/07 and 2007/08 in the City of Tshwane. (This represents a 10 per cent decline in personnel expenditure by this metro).
- a R219 million or 8 per cent decline between 2004/05 and 2005/06 in eThekweni.
- a R192 million or 6 per cent decline between 2003/04 and 2004/05 in the City of Cape Town.

Such declines usually reflect either the impact of a retrenchment programme or the outsourcing of functions.

**Figure 12.3 Personnel expenditure by metro,  
2003/04 – 2009/10**



Source: National Treasury local government database

### Personnel expenditure versus other inputs

Aggregate municipal expenditure on personnel as a percentage of operating expenditure has remained almost constant around 30 per cent since 2003/04.

For the metros, the ratio of personnel expenditure to operating expenditure is below the national average and is set to decline to a level around 26 per cent over the MTEF period. By contrast, for category B municipalities this ratio has been increasing consistently from 32.8 per cent in 2004/05 and is set to reach 35.9 per cent in 2009/10. It is difficult to reconcile this trend with the decline in

employment numbers for category B municipalities. What it points to is that higher wages appear to correlate directly with a decline in the number of jobs, rather than attracting more people to work for municipalities. Or stated differently, average wages are increasing at the expense of jobs.

The ratio of personnel expenditure to operating expenditure among the 21 secondary cities is slightly higher than for the metros. It increases to around 38 per cent in the case of the 170 municipalities that make up the towns sub-group and among the 70 mostly rural municipalities is set to reach 45 per cent over the MTEF period. The two factors most likely to be underpinning this trend are:

*Metros and larger municipalities have lower personnel to operating expenditure ratios*

First, the metros and larger municipalities are better placed to take advantage of the economies of scale associated with mechanisation and have indeed been doing so for a long time. They are also more able to negotiate the intricacies of outsourcing labour intensive functions. Together these result in metros and larger municipalities having lower personnel to operating expenditure ratios.

Second, as municipalities become smaller in terms of budget size, the more top heavy their governance and management structures become relative to their overall staffing profile, as well as their budget. The problem is particularly acute among small municipalities where the revenue bases are so limited that they do not allow for much more than the employment of core staff. This translates into the very high ratios of personnel expenditure to operating expenditure shown among the 70 mostly rural municipalities.

### **Understanding the ratio of personnel expenditure to operating expenditure**

The ratio of personnel expenditure to operating expenditure is widely used as an indicator of the sustainability of municipal budgets and expenditures. This raises important questions of exactly how the ratio should be interpreted and whether National Treasury should set a benchmark for purposes of assessing the sustainability of municipal finances.

First, on the issue of interpreting the ratio, one needs to be aware of the factors that can influence it. These include:

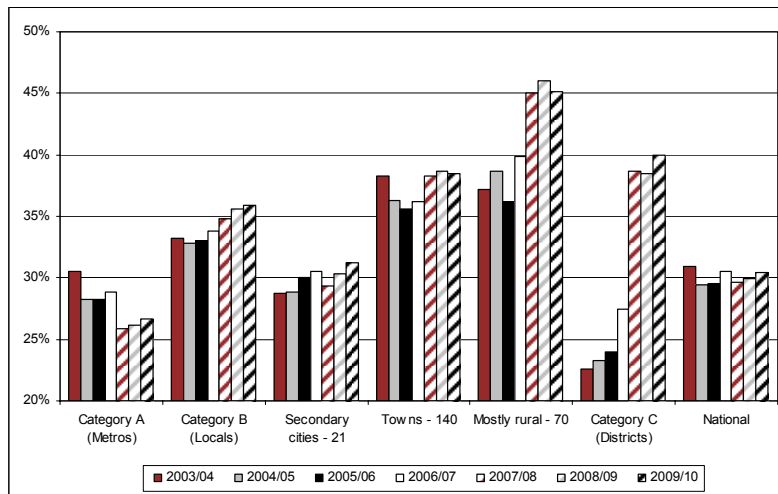
- the nature of the functions allocated to the municipality and types and extent of services it delivers
- the municipality's organisational structure, particularly the ratio of management to technical and unskilled employees
- the labour intensity of the municipality's operations versus the extent of mechanisation
- the extent to which the municipality has outsourced the more labour intensive components of its operations
- the composition of the non-personnel components of operating expenditure, particularly trends in expenditure on maintenance and payments for bulk water and electricity services.

Second, on the issue of setting a benchmark, it is clear that the interpretation of the ratio is specific to the context of each municipality. It would therefore be inappropriate for National Treasury to set a specific benchmark. Nevertheless, should the ratio for a municipality be significantly above or below the average ratio for its peers it should be treated as a warning signal and should trigger an enquiry into the factors that are driving the ratio in a particular direction. It is after all these underlying factors that may be threatening the financial sustainability of the municipality and not the ratio itself.

The picture that figure 12.4 gives of what is happening among category C municipalities is cause for concern. Personnel expenditure as a percentage of operating expenditure increases from 22.5 per cent in 2003/04 to an expected 40 per cent in 2009/10. This indicates a radical shift in the composition of expenditure by district municipalities. Part of this shift can be attributed to declining operating expenditure, but a greater part is due to the very rapid growth in personnel expenditure among category C municipalities.

*There has been very rapid growth in personnel expenditure among category C municipalities*

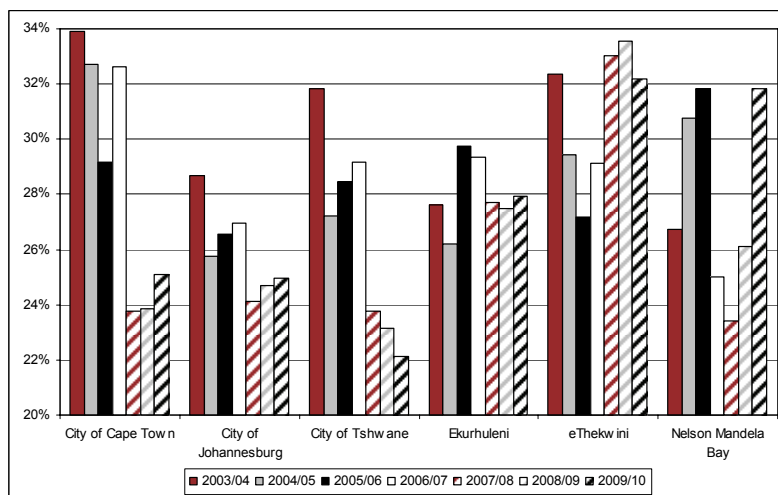
**Figure 12.4 Municipal personnel expenditure versus operating expenditure by category of municipality, 2003/04 – 2009/10**



Source: National Treasury local government database

Figure 12.5 shows personnel expenditure as a percentage of operating expenditure for the metros.

**Figure 12.5 Municipal personnel expenditure versus operating expenditure for the metros, 2003/04 – 2009/10**



Source: National Treasury local government database



Even though the data for the individual metros appears highly variable the following three trends are worth noting. First, of the six metros, the City of Johannesburg has, on average, maintained the lowest personnel to operating expenditure ratio between 2003/04 and 2006/07. This would suggest the City of Johannesburg's budget and operations are in some respects structurally different from the other metros, more highly mechanised for instance.

Second, the City of Cape Town is projecting to reduce its personnel to operating expenditure ratio from over 32 per cent in 2006/07 to under 25 per cent in 2007/08. This is driven by a 43 per cent increase in the operating budget between 2006/07 and 2007/08, most of which is allocated to non-personnel items, particularly maintenance. The City of Tshwane is projecting a similar drop, eventually reaching just more than 22 per cent by the end of the MTEF period. However, in the City of Tshwane's case the decline in the ratio is being driven primarily by the R255 million drop in personnel expenditure between 2006/07 and 2007/08.

Third, eThekweni is projecting that its personnel to operating expenditure ratio will increase to around 32 per cent in 2007/08. It is likely that the metro's plans to establish a metro police force is driving this increase – given that this is a relatively labour intensive function.

Table 12.9 shows the five category B municipalities that for the period 2003/04 to 2009/10 have on average the highest and the lowest ratios of personnel expenditure to operating expenditure. It is noticeable that the five municipalities with the highest personnel to operating expenditure ratios are all located in KwaZulu-Natal and the Eastern Cape, while four of the five municipalities with the lowest ratio of personnel expenditure to operating expenditure are located in the northern and north-western regions of the country.

**Table 12.9 Personnel expenditure as percentage of operating expenditure for the top 5 and bottom 5 category B municipalities, 2003/04 – 2009/10**

Percentage	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
	Outcome			Estimate	Medium-term estimates		
<b>By top five category B municipalities</b>							
Nongoma - KZ265	91.0%	80.1%	57.8%	60.5%	52.2%	52.9%	56.9%
Ndwedwe - KZ293	80.9%	62.7%	52.4%	60.5%	56.5%	62.9%	63.0%
Mnquma - EC122	27.0%	54.4%	64.4%	68.7%	68.2%	69.7%	70.2%
Inxuba Yethemba - EC131	53.2%	54.5%	59.3%	58.7%	63.9%	63.9%	63.9%
Tsolwana - EC132	53.3%	58.7%	41.5%	45.3%	71.8%	71.8%	71.9%
<b>By bottom five category B municipalities</b>							
Polokwane - NP 354	25.4%	24.4%	24.2%	35.3%	16.5%	20.5%	30.2%
Moshaweng - NC041	24.9%	16.1%	24.7%	16.5%	29.3%	30.3%	34.2%
Greater Tzaneen - NP 333	27.9%	25.6%	23.8%	28.9%	21.6%	21.6%	21.6%
Emfuleni - GT421	21.7%	19.7%	23.6%	21.2%	26.1%	28.1%	28.9%
Rustenburg - NW373	19.0%	17.9%	17.7%	17.0%	14.9%	13.1%	14.6%

Source: National Treasury local government database

There have to be serious doubts about the financial viability of municipalities with personnel to operating expenditure ratios in excess of 60 per cent, especially if there is little prospect of them being able to increase their budgets with internally generated revenues. The challenges faced by the municipalities at the lower end of the spectrum relate primarily to persistently high vacancy rates, which are greatly aggravated by poor management and poor governance.

*Municipalities with high personnel to operating expenditure ratios and those with persistently high vacancy rates are problematic*

### Average cost of employment

Table 12.10 shows the average cost of employment in most instances increasing at rates well above inflation. Indeed the growth in average wage costs for the City of Tshwane, eThekweni and Nelson Mandela Bay are all above 20 per cent. This points to the possibility that many of the jobs shed between 2005 and 2006 were lower income jobs, which suggests that municipalities are either adopting less labour intensive approaches to deliver services, or they are outsourcing labour intensive services to the private sector. Either way municipalities are employing fewer low skilled workers directly.

*Municipalities are employing fewer low skilled workers directly*

**Table 12.10 Average cost per employee, 2005 and 2006**

Rand	2005	2006	% growth
<b>By category of municipality</b>			
Category A (Metros)	140 187	161 861	15.5%
Category B (Locals)	105 370	121 029	14.9%
<i>Secondary cities - 21</i>	<i>125 051</i>	<i>142 631</i>	<i>14.1%</i>
<i>Towns - 140</i>	<i>96 346</i>	<i>98 686</i>	<i>2.4%</i>
<i>Mostly rural - 70</i>	<i>87 961</i>	<i>143 550</i>	<i>63.2%</i>
Category C (Districts)	182 124	176 012	-3.4%
Category B + C	111 995	126 460	12.9%
<b>By metro</b>			
City of Cape Town	117 356	137 828	17.4%
City of Johannesburg	140 278	149 558	6.6%
City of Tshwane	163 189	202 626	24.2%
E kurhuleni	159 427	176 450	10.7%
eThekwini	139 020	169 230	21.7%
Nelson Mandela Bay	136 397	163 538	19.9%
<b>By top five category B municipalities</b>			
Fetakgomo - NP03a3	234 000	396 926	69.6%
Moshaweng - NC451	115 509	301 667	161.2%
Aganang - NP352	231 425	300 421	29.8%
Bela Bela - NP366	83 251	293 734	252.8%
Maphumulo - KZ294	73 494	290 543	295.3%
<b>By bottom five category B municipalities</b>			
Maletswai - EC143	44 264	51 793	17.0%
E makhazeni - MP314	46 731	48 421	3.6%
Nxuba - EC128	66 744	43 234	-35.2%
Nquthu - KZ242	431 308	40 920	-90.5%
Elias Motsoaledi - NP03a5	132 219	21 524	-83.7%

Source: National Treasury local government database

The table also shows some very interesting differences between municipalities. Among the metros, the City of Cape Town has an average cost of employment that is well below the national average and in 2006 was nearly R65 000 less than the City of Tshwane. This may be partly explained by the fact that professional salaries are generally lower in Cape Town than in Gauteng. However, it would be interesting to explore the extent to which these differences are due to differences in the labour intensity of their operations and approaches to outsourcing.

*There could be a sub-optimal duplication of management structures between district municipalities and category B municipalities*

On aggregate, the average cost of employment is highest in category C municipalities – nearly R33 000 more than the national average. This suggests that these municipalities have top heavy management structures and employ relatively few low skilled workers. It could be argued that this is inherent to the role assigned to the district municipalities, but it may also point to a sub-optimal duplication of management structures between district municipalities and category B municipalities.

Among the category B municipalities, the 21 secondary cities have average wages similar to those for certain of the metros, whereas average wages are lowest among the 170 municipalities that make up the towns subgroup, probably due to the fact that they generally use more labour intensive approaches to deliver services and so the ratio of management to unskilled workers is low.

In 2006, average wages in the 70 mostly rural municipalities were higher than in the secondary cities. This further confirms the point made above about top heavy management and governance structures, which is emphasised by the five municipalities that paid the highest average wages in 2006.

## ■ Are municipalities supporting job creation?

As indicated in the introduction, municipalities have a crucial role to play in job creation. This is an integral part of their contribution to combating poverty.

*Many activities performed by municipalities lend themselves to providing job opportunities for low and unskilled labour*

Many activities performed by municipalities lend themselves to providing job opportunities for low and unskilled labour. As indicated, municipalities face critical choices in this regard, whether to adopt capital intensive approaches or labour intensive approaches. Even when outsourcing, the municipality should specify the technology it expects the private company to use. The aim should be to ensure that outsourcing contributes to job creation, rather than job shedding as a consequence of more capital intensive approaches. Indeed, “number of jobs created” should be a standard performance indicator on all outsourcing contracts and PPP arrangements.

*Municipalities are generally inclined to adopt capital intensive approaches*

The data currently available does not enable the labour intensiveness of different municipal activities to be assessed and compared at an aggregate level. Anecdotal information suggests that generally municipalities are inclined to adopt capital intensive approaches. The mechanisation of grass cutting, street sweeping, ditch digging, road maintenance and a host of other activities points in this direction. Of

course there is a balance between job creation, efficiency and cost. This needs to be managed and in each instance the appropriate technology for the task needs to be decided upon, with a bias towards labour intensive approaches.

In this regard, a large number of projects falling under the umbrella of the extended public works programme (EPWP) provide examples of labour intensive approaches to delivering services.

### Municipalities' contribution to the expanded public works programme

Municipalities' involvement in the EPWP is very limited. Only 20 of the 283 municipalities participated in the programme in 2005. This increased to 33 in 2006 and 2007. Table 12.11 highlights the extent of these municipalities' contribution to the overall EPWP outcomes in 2005 and 2006.

*Municipalities' involvement in the EPWP is very limited*

**Table 12.11 Municipalities' contribution to the EPWP, 2005 and 2006**

Province	2005			2006		
	Number of projects	Expenditure (including professional fees) (R million)	Gross number of work opportunities created	Number of projects	Expenditure (including professional fees) (R million)	Gross number of work opportunities created
Eastern Cape	1	1	171	92	324	12 283
Free State	45	89	21 152	31	29	1 055
Gauteng	28	54	1 634	82	456	12 377
KwaZulu-Natal	48	85	9 470	93	343	27 003
Limpopo	6	2	273	39	31	1 360
Mpumalanga	69	44	2 017	107	139	4 345
Northern Cape	4	36	1 608	6	4	327
North West	44	48	1 584	43	170	1 171
Western Cape	68	14	5 779	141	312	5 284
<b>Total</b>	<b>313</b>	<b>372</b>	<b>43 688</b>	<b>634</b>	<b>1 808</b>	<b>65 205</b>
<i>Percentage of national EPWP</i>	<i>7.2%</i>	<i>15.0%</i>	<i>20.6%</i>	<i>9.0%</i>	<i>25.1%</i>	<i>20.3%</i>

*Source: Department of Public Works*

Table 12.11 emphasises the potential that exists at the local government level to implement labour intensive approaches to delivering services. Although less than 10 per cent of the total number of EPWP projects have been run by municipalities over the last three years, these projects have created over 20 per cent of the work opportunities. This indicates that EPWP projects run by municipalities are on average larger than those located in the national and provincial spheres of government.

The challenge is to mainstream the labour intensive approaches that are being used in the EPWP projects into the normal way municipalities go about their business of delivering services. Currently, municipalities are required to adopt labour intensive approaches in order to access the municipal infrastructure grant (MIG). However, the MIG only constitutes 7 per cent of total expenditure by municipalities. If municipalities adopted similar labour intensive approaches in other areas of expenditure, their contribution

to job creation and therefore poverty alleviation could be increased very significantly.

### Impact of municipal wage settlements

Why do municipalities appear to be becoming more capital intensive in their approach to service delivery?

*A municipality's primary aim is to maximise the output of services to communities given available resources*

A standard economic answer to this question is that the cost of labour has increased relative to the cost of capital within the municipal sphere of activity. And so municipalities are behaving rationally (economically speaking) when they replace labour with machines – labourers digging ditches with ditch diggers. After all, a municipality's primary aim is to maximise the output of services to communities given available resources. Hence, if a capital intensive approach is more cost effective than a labour intensive approach it is incumbent on a municipality to mechanise. Or is it?

Table 12.12 indicates that municipal wage settlements in 2005 to 2007 have been slightly below the average level of settlement for all sectors.

**Table 12.12 Municipal wage settlements and minimum wages, 2005 – 2007**

	2005	2006	2007
<b>Average level of settlements</b>			
All sectors	6.3%	6.5%	7.3%
Municipalities	6.2%	5.6%	7.0%
<b>Average minimum wage</b>			
All sectors	R 3 057	R 3 065	R 3 609
Municipalities/utilities	R 3 425	R 3 613	R 5 100

*Source: Andrew Levy Group, The Wage Settlement Survey, 2005, 2006, 2007*

However, the table also shows that the average minimum wage for municipalities and utilities has increased from 12 per cent above the national average for all sectors in 2005 to 41 per cent above the national average in 2007. Given the relatively modest wage settlements in these years, this points to a reduction in the proportion of jobs at the lower end of the wage spectrum within municipalities. The optimistic view is that these lower level jobs are being re-graded upwards. However, jobs are being lost, the average cost per employee is increasing and the higher minimum wage noted above are being “paid for” by the shedding of low level jobs – facilitated by mechanisation and outsourcing.

*Labour relations challenges seem to be driving the bias in favour of mechanisation over labour intensive production approaches*

It is likely that municipal managements' views of the cost of labour are strongly influenced by the “hassle factor” of managing a highly unionised and relatively militant workforce. In 2005 and 2007 strikes in the municipal sector ranked among the top six strikes nationally in terms of workdays lost. Unfortunately, these labour relations challenges seem to be driving the bias in favour of mechanisation over labour intensive production approaches.

Indeed there seems to be a catch-22 situation in the local government sector, outsourcing and the shedding of jobs lead to a militant response from the unions and municipal managers respond by seeking

to outsource and mechanise further. It is a downward spiral that requires a collective response. All parties need to give priority to protecting and expanding jobs in a way that promotes efficient and cost effective services.

## ■ Shifting to a single public service

The Department of Public Service and Administration is currently driving an initiative to establish a single public service. The initiative seeks to facilitate the co-ordinated management of personnel across the three spheres of government and in so doing facilitate:

- a deepening of integrated service delivery
- the strategic alignment of government institutions in the three spheres of government
- enabling the mobility of staff between the three spheres of government.

The department completed an initial draft of the Public Administration Management Bill in June 2007. In July 2007, Cabinet approved a process of consultation on the draft bill. This was followed by information sharing and engagements with provincial intergovernmental relations forums, municipalities through the South African Local Government Association (SALGA), trade unions, that National Economic Development and Labour Council (NEDLAC) and the Public Services Commission. This first bill has since been redrafted to include the inputs from the above-mentioned stakeholders as well as legal advice. A redrafted Public Administration Management Bill was introduced in Parliament on 8 June 2008.

Getting the necessary legislation in place is a necessary step, but the greatest challenge involves aligning the human resource management practices between the public service and municipalities. This involves aligning the current remuneration grading and conditions of service dispensations (including pension and medical aid dispensations).

*Greatest challenge involves aligning the human resource management practices between the public service and municipalities*

A project team comprising of representatives of the departments of public service and administration and provincial and local government, National Treasury and SALGA has been appointed to work out possible transition scenarios and the cost of the different options. This work is currently under way.

## ■ Conclusion

The above analysis highlights the relatively modest contribution that municipalities make to overall employment. It shows that between 2005 and 2006 the number of municipal employees declined, despite an increase in the number of available positions. Together, these factors have contributed to rising vacancy rates. Although the aggregate vacancy rates are on average lower in the key sectors of electricity, water and sanitation and waste removal than in other areas of service delivery, they are worryingly high among the metros.

### Dealing with municipal pension funds

The transformation of municipal pension funds is a key outstanding challenge in the local government sector. There are 104 registered retirement funds available to employers in local government. Although these represent a small portion (less than 5 per cent) of the total retirement savings in South Africa, they nevertheless constitute around R60 billion in assets and cover some 220 000 members and 62 000 pensioners. The ten largest municipal pension funds by value of assets are shown below.

#### Ten largest municipal pension funds by assets, 2008

Name of fund	Total assets (R million)	Contributing members	Non- contributing	UB members
Cape Municipal Pension Fund	8 525 884	8 132	5 798	335
Municipal Gratuity fund	8 198 399	26 903	–	2 285
Municipal Employees Pension Fund	4 943 843	14 331	7 584	–
Johannesburg Municipal Pension Fund	4 388 819	1 939	4 716	–
Natal Joint Municipal Pension Fund (superannuation)	3 380 800	6 877	3 568	193 296
National Fund for Municipal Workers	3 015 254	26 163	–	–
KZN Municipal Pension Fund	2 661 661	5 983	–	–
City of Johannesburg Pension Fund	2 346 481	5 660	4 868	–
Southern African Municipal Workers' Union National Provident Fund	2 213 269	25 224	–	–
Joint Municipal Pension Fund	2 157 218	765	3 139	123

In transforming municipal pension funds the following outstanding issues need addressing:

- There are 18 remaining defined benefit funds of which only 2 are open to new members and even these appear to be *de facto* closed due to a directive issued by the employer body (SALGA) to municipalities.
- The funds offered by municipalities are overly-generous when compared to both the private sector and the rest of the public sector. What is particularly concerning is that the municipal defined contribution funds appear to have been established using the existing (or similar) contribution rates payable in the defined benefit funds. The average contribution rate in the municipal defined contribution funds is 27.3 per cent, compared to 21.0 per cent in the Government Employees Pension Fund (GEPF) and 15.9 per cent in the private sector. The result of this is that these funds are in effect virtually as costly as their defined benefit counterparts.

Finally, any shift to a single public service will probably involve amalgamating the municipal pension funds with the GEPF. This, however, is potentially a very costly exercise. Aligning the municipal funds with the GEPF will bring an annual saving of R610 million to the municipalities, whilst moving all GEPF members to the average municipal defined contribution fund will cost government an extra R6.3 billion per year.

Personnel expenditure has been growing strongly. However, the average cost of employment and the average minimum wage have grown even faster. In effect these gains are being “paid for” by the shedding of low level jobs – facilitated by mechanisation and outsourcing.

Indeed many of the trends point to a bias in favour of mechanisation and against labour intensive approaches to delivering services. This needs to be reversed if municipalities are to make a meaningful contribution to job creation and to combating poverty.

Lastly, there is an urgent need to improve the scope and quality of information pertaining to municipal personnel so that it can be used to analyse the nature of the problems facing local government and so assist developing interventions that go to the core of the capacity challenges faced by the sector.