



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Local Government Budgets and Expenditure Review, 2008

Meeting new challenges of growth and poverty alleviation

26 August 2008

Why a *Local Government Budgets and Expenditure Review*?

Review measures progress in local government

- Allows progress over the last four years to be measured
- Are municipalities contributing to a better life for all?

Review shows where municipalities have allocated and spent public money

- Are municipal budgets allocating funds in line with development priorities?
- Are budgets buying the planned outputs?

Review explores developmental role of municipalities

- Are municipalities playing their role with regards to encouraging economic growth and poverty alleviation?

Review shows link between policies, budgets, expenditures and outputs

- Are policies delivering the intended outcomes?

Data Issues

Factors that impact on the comparability of information over the period

- The move from GAMAP to GRAP accounting practices
- The phased implementation of the MFMA requirements relating to consolidated financial statements
- The abolition of the RSC levies and the off-setting increase in the local government equitable share
- Demarcation process and the abolition of cross-boundary municipalities

Every effort made to ensure reliability of budget and expenditure information

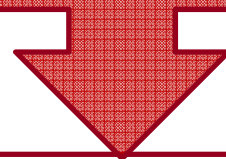
- The following sources were used:
 - Audited financial statements for 2003/04 to 2005/06
 - Available audited financial statements and pre-audit information for 2006/07
 - Budget and related documents for 2007/08 to 2009/10

Detailed budget and expenditure data published on National Treasury's website

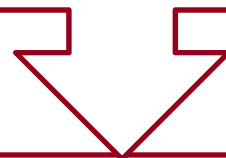
- www.treasury.gov.za/publications/igfr/2008/default.aspx

Outline

Key findings of the review



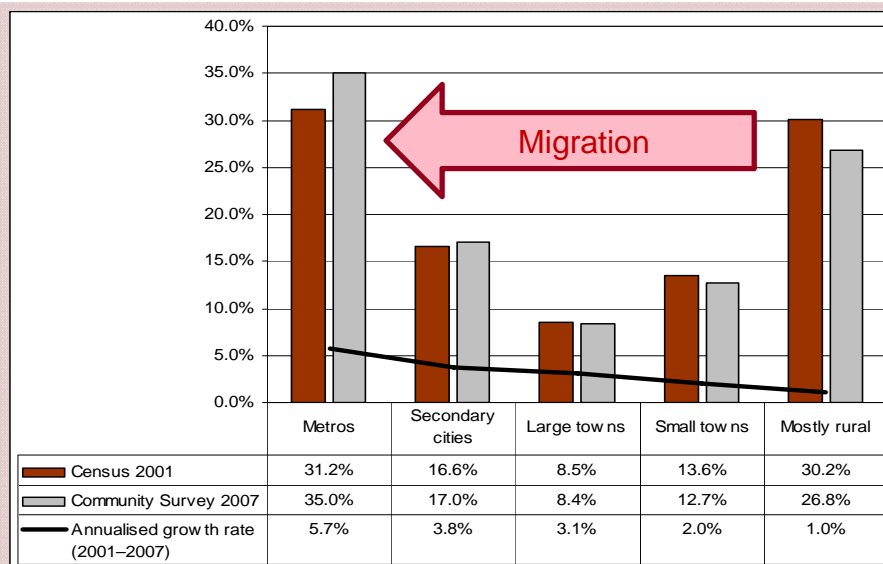
Summary of chapters



Conclusion

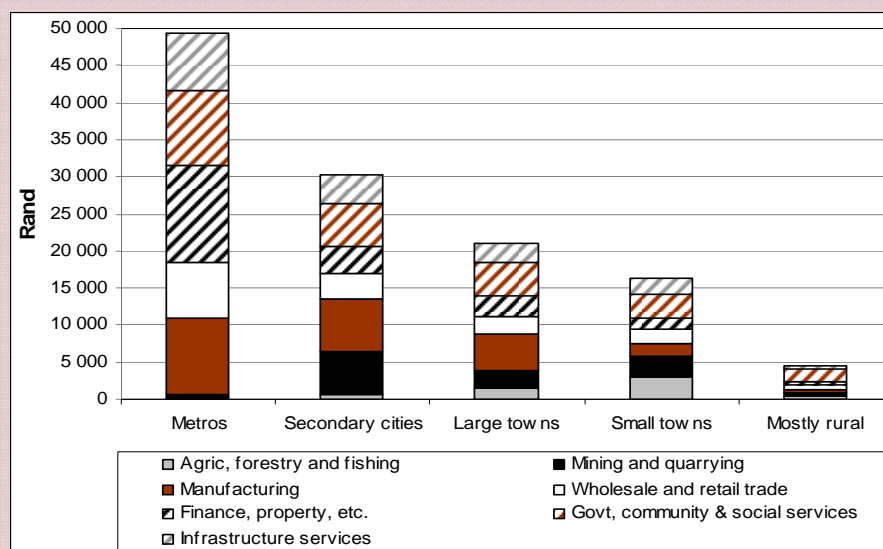
Local government faces a new generation of challenges

New demographic pressures arising from urbanisation



Share of population and growth rate by category of municipality, 2001 – 2007

New economic pressures arising from economic growth

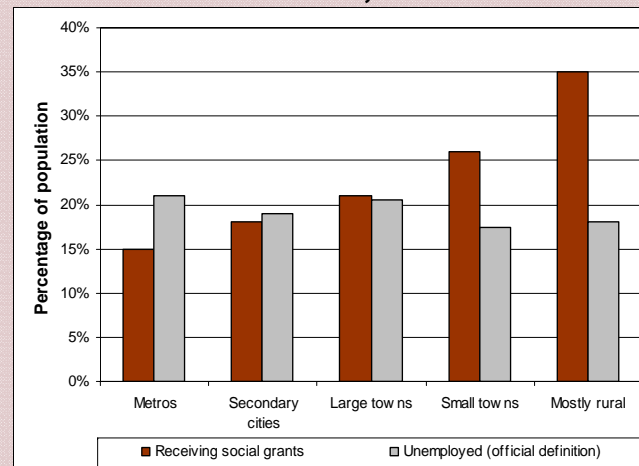


Gross value added per capita by type of municipality, 2004

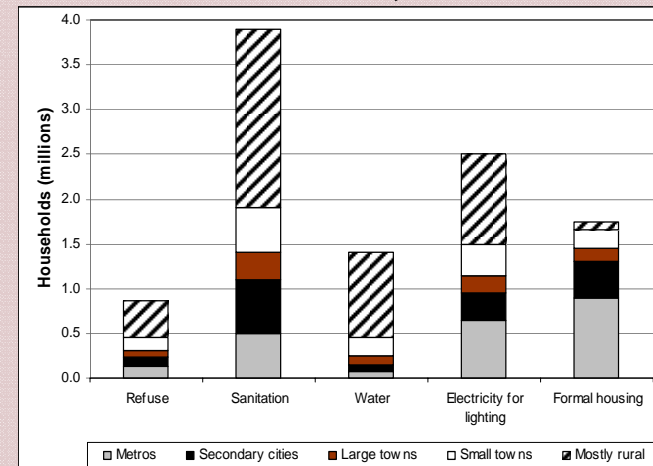
This translates into significant pressure for infrastructure investment and service delivery

To
combat
poverty

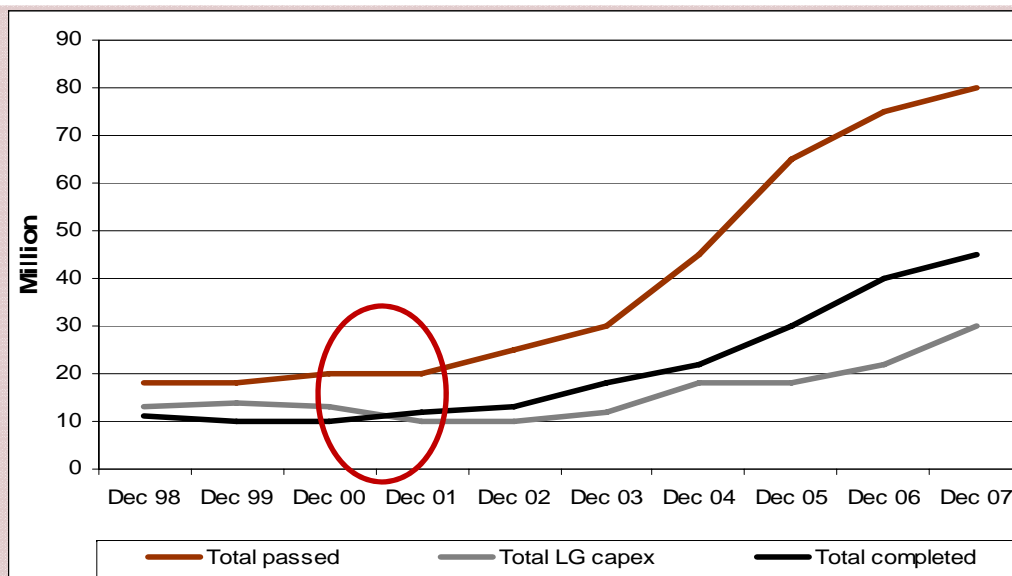
Proxies of poverty by municipal location, 2007



Households without access to basic services, 2007



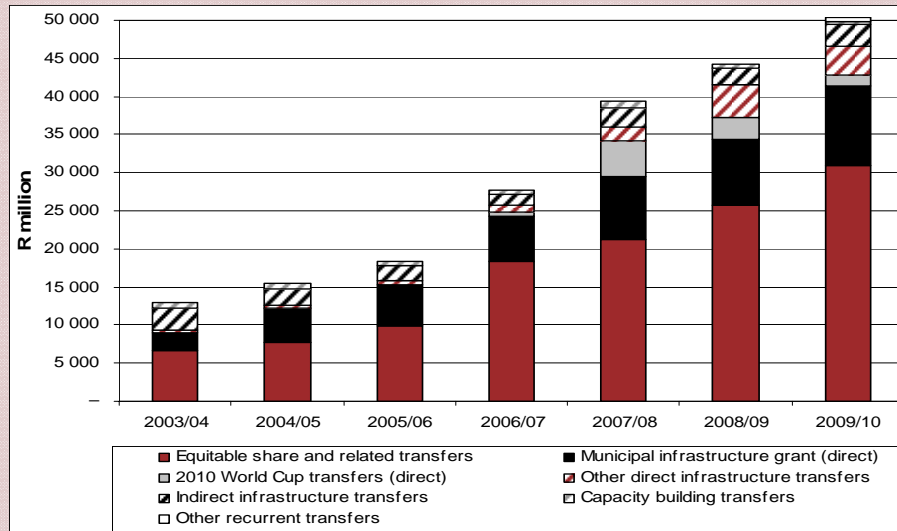
To
support
growth



Nominal value
of building
plans passed
and
completed vs
local
government
capital
expenditure,
1998 – 2007

National government has provided unprecedented levels of support

Massive real growth in national transfers



Significant policy reforms

- Framework legislation (Structures Act, Systems Act, MFMA) for municipalities aimed to foster improved financial management
- Simplification, streamlining and increased predictability of transfers (DoR Act)
- Improved intergovernmental monitoring and communication

Targeted capacity and systems support

- Support in planning and budget reform
- Hands-on support to struggling municipalities
- Significant additional resources

... but municipal responses are still inadequate

- Delays in addressing these challenges are compounded over time
- LG transition process must now shift from focussing on organisational restructuring to service delivery performance

Limited municipal focus on economic development priorities

Weak financial and asset management practices

Outdated spatial plans and delays in approving development plans

Backlogs in infrastructure and inadequate maintenance expenditure

- Efforts are hampered by:
 - Councils distracted by political conflicts
 - Poor governance practices
 - Incompetence
 - Corruption

The 2008 LGBER offers both new and updated analysis of key issues

Focuses on the adequacy of municipal initiatives

- Supporting economic growth
- Combating poverty
- Strengthening management and governance capacity

Structured in four parts

- Social and economic context for local governance
- Financing issues: trends, intergovernmental transfers and private finance
- Service delivery: water and sanitation, electricity, roads and public transportation
- Managing local development: built environment, MFMA implementation, municipal personnel

Key issues include

Inadequate municipal response to rising demand for services

- Capital expenditures inadequate to meet demand of growing economy
- Limited maintenance threatens reliability of services
- Rising costs reduce rate at which services can be extended

Significant growth in national transfers

- Growth in transfers not matched by own revenue effort
- Transfers discourage municipalities from using private finance to fund capital, resulting in a failure to use resources optimally
- Rising grant dependence ultimately restricts municipal autonomy and accountability to local communities

Under-pricing of services

- Inadequate tariff increases have increased grant reliance, and reduced self-financing of utility services
- Under-pricing undermines effective asset management
- Price adjustments remain difficult due to pressures on household budgets

Institutional inefficiencies

- Instability in senior management undermines reform initiatives and service delivery
- Attention needs to be given to staffing of technical functions
- Need for better intergovernmental policy co-ordination
- Better designed national programmes to support local government capacity development

Potential policy responses include

Creating fiscal space

- Balancing price increases against need for improved operational expenditure efficiency
- Better management of debtors
- More innovative use of opportunities to leverage private finance, including development charges

Reconceptualising approaches to combating poverty

- Spatial planning and location of bulk infrastructure to guide private investment decisions
- Effective development control to ensure poor households are located close to economic opportunities

Ensuring fiscally sustainable choices in service delivery

- Appropriate choice of service levels
- Expansion of labour intensive service delivery methods

Stabilising senior management

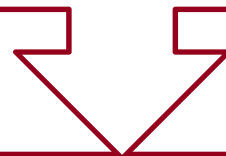
- Reduce senior management turnover and vacancy rates

Allowing asymmetric allocation of powers and functions

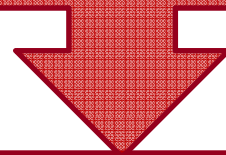
- Better coordination of financing with the allocation of powers and functions to municipalities
- Greater differentiation between municipalities based on their capacities

Outline

Key findings of the review



Summary of chapters



Conclusion

Summary of chapters

Introduction and context

- 1. Introduction
- 2. Socio-economic and fiscal context

Financing issues

- 3. Revenue and expenditure trends
- 4. Metropolitan finance
- 5. Intergovernmental transfers
- 6. Leveraging private finance

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Municipalities are important economic actors

Contribution to GDP

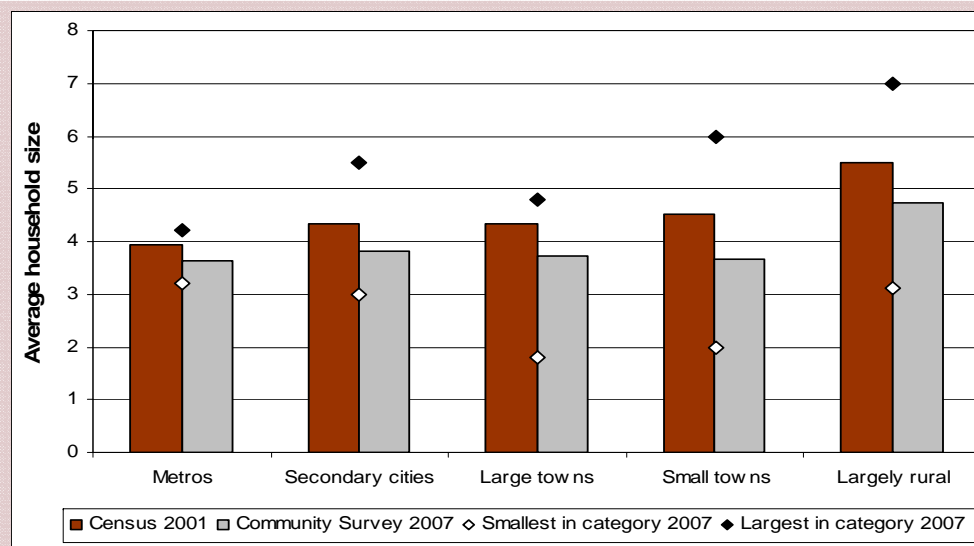
- LG expenditure averages of 6.9% of GDP
- LG infrastructure and services essential inputs to the rest of the economy
- Approximately 80% of GDP generated in the 27 largest cities

Contribution to infrastructure investment

- LG responsible for 24% of total public sector infrastructure expenditure
- Declining share due to more rapid growth in capital expenditures by provinces and public enterprises

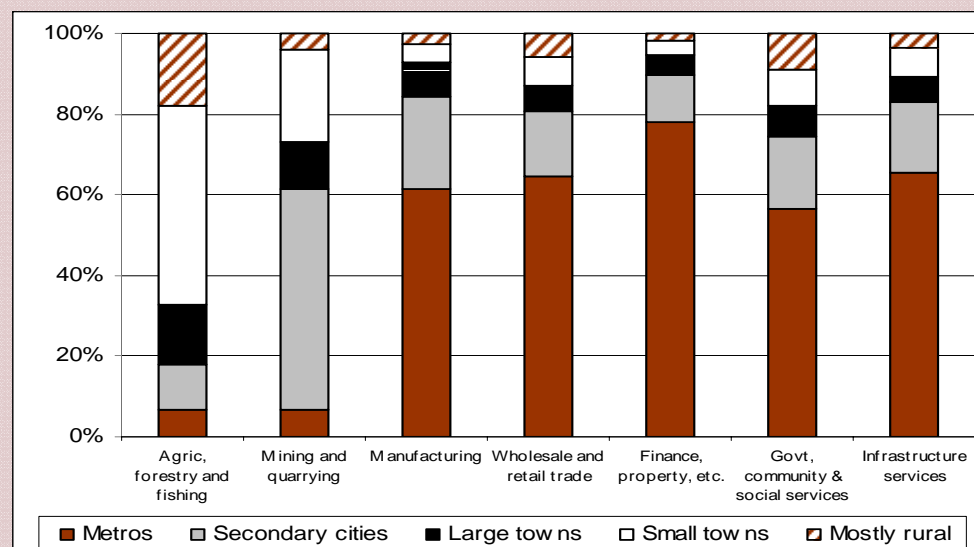
But there are significant differences between municipalities

Demographic trends



Average household size by type of municipality, 2001 and 2007

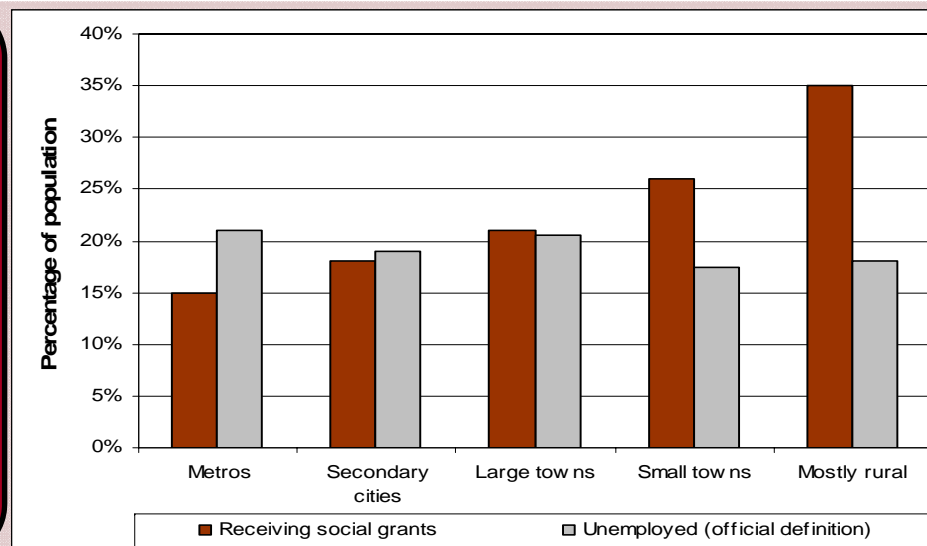
Economic profiles



Gross value added by municipal types, 2004

This requires municipalities to respond differently to their specific contexts

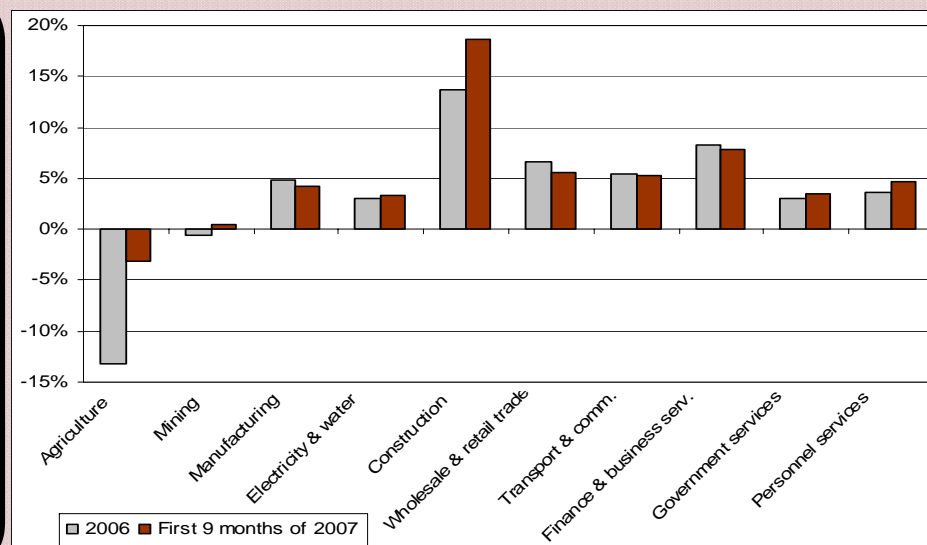
Combating poverty



Proxies of poverty by type of municipality, 2007

All municipalities need to be aware of the poverty and unemployment within their jurisdictions, so they develop appropriate service delivery strategies, indigent policies and revenue strategies

Supporting economic growth

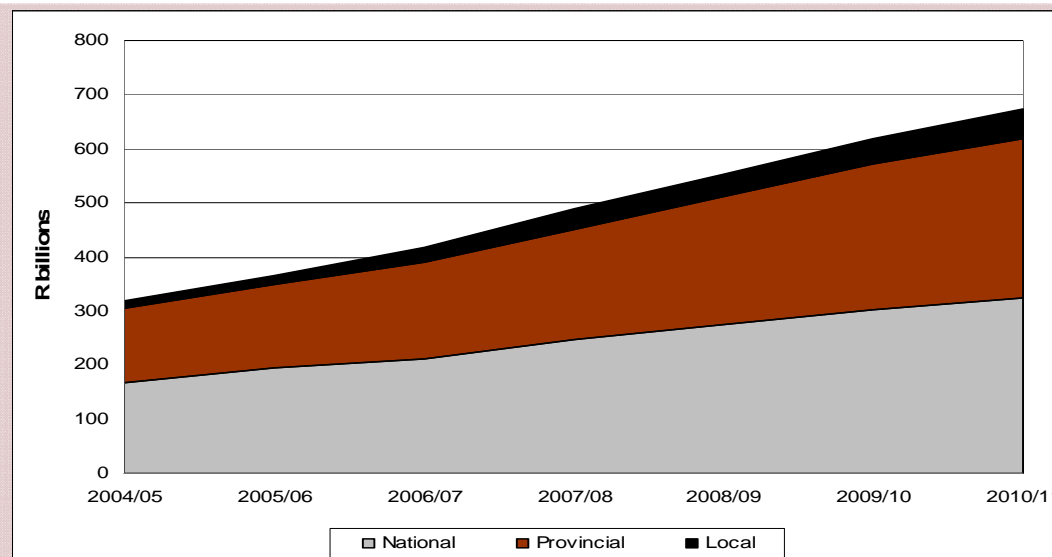


Sectoral growth, 2006 and 2007

Municipalities need to be aware of how the sectors of the economy represented within their areas are performing – and then tailor their spatial plans and IDPs to provide appropriate support

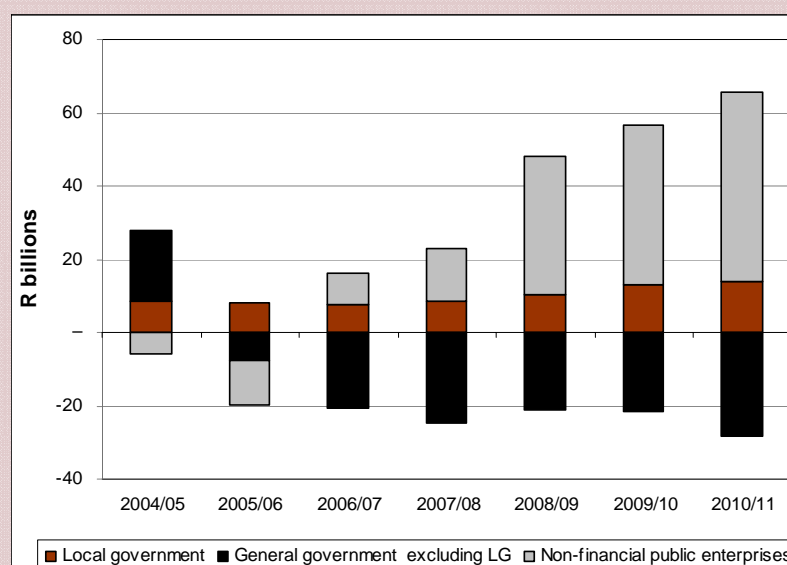
... while also responding to the opportunities created by national fiscal policy

Growth in transfers to local government and stable macro-economic policy



Vertical division of revenue, 2004/05 – 2010/11

Reduced national borrowing requirement and rising public sector capital expenditure



Public sector borrowing requirement, 2003/05 to 2010/11

Reduced national government borrowing means there is fiscal space for municipalities to borrow more

Greater borrowing by public enterprises means greater infrastructure investment, which raises co-ordination challenges for municipalities

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The local sphere has a unique and evolving fiscal framework

Significant component of total public expenditures

- 23.4% of total public spending in 2007/08
- R118.4 billion in operating revenues, mainly from service charges, property rates and grants
- R39,7 billion in capital funding, mainly from grants and external loans

Municipalities are largely self-financing

- Own revenue collection is an important dimension of democratic local accountability
- Balanced by national transfers that recognise variations in fiscal capacity and support universal access to basic services

Significant variation between municipalities

- Average annual per capita spending of R3538 in 2007/08, but varies from R6334 in Western Cape to R1903 in Limpopo
- Reflects variations in:
 - revenue raising capacity and expenditure needs
 - levels of revenue effort and capacity to spend
 - maturity, given history of local government in area

Municipalities continue to face important fiscal challenges

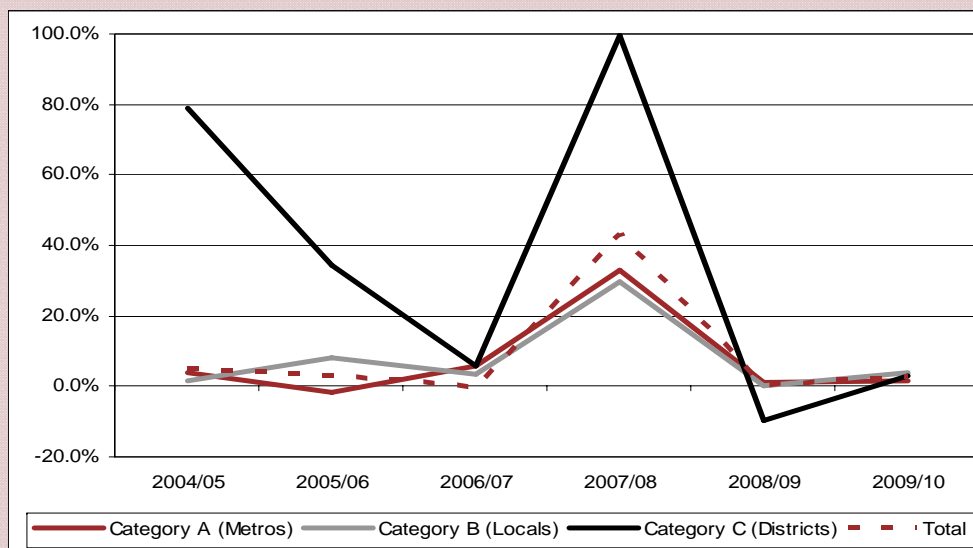
Under-pricing of services

- Declining role of user charges in revenue generation, as national transfers increase

Growing grant dependence

- The equitable share constituted 12.2 % of the total operating revenue in 2003/04. This has risen to an estimated 22.4% in 2007/08

Inadequate maintenance expenditures



Repairs and maintenance real expenditure growth, 2004/05 – 2009/10

Stabilising but high outstanding consumer debts

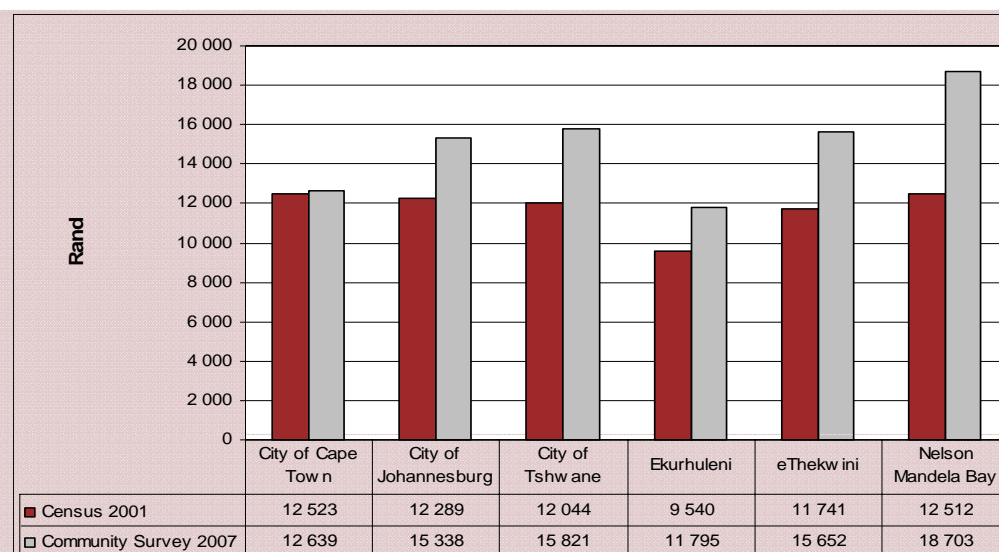
- In December 2007, municipalities were owed a total of R44.1 billion. This represents an increase of 0.3% from the same month in 2006

Metro's play a highly significant role in both LG finance and the public sector

Increasingly important role

- Metro budgets make up 57.5% of all municipal budgets for 2007/08, increasing to 59.1% in 2009/10.
- In 2001, 36.8% of households were located in metros, increased to 37.8% in 2007
- Home to 58.6% to the national economy in terms of value of goods and services produced (GVA)

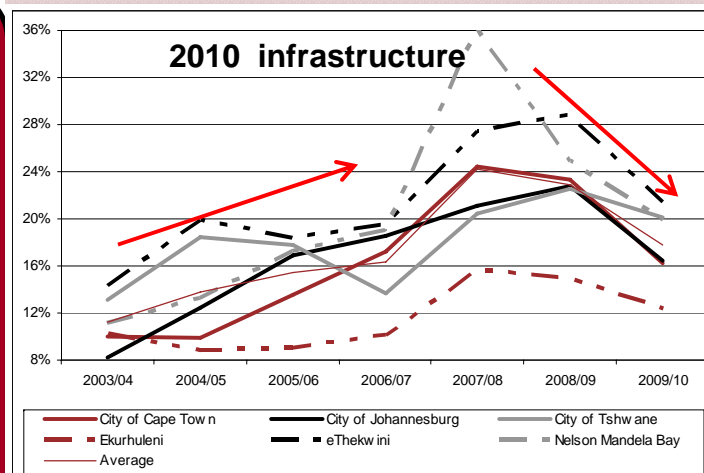
But variation exists between metro's as well



Metros expenditure per household, 2001 and 2007

Metro capacity and performance has improved, but significant challenges remain

Improving basic indicators



Capital benefit ratio, 2003/04 – 2009/10

This ratio shows spending on capital as a percentage of total municipal spending

When demand for infrastructure is high, the ratio should increase

Shows which metros are spending relatively more on infrastructure

Audited outcomes by metro, 2003/04 – 2006/07

	2003/04	2004/05	2005/06	2006/07
Audit outcome				
City of Cape Town	Unqualified	Unqualified	Unqualified	Unqualified
City of Johannesburg	Disclaimer	Disclaimer	Qualified	Unqualified
City of Tshwane	Qualified	Qualified	Qualified	Qualified
Ekurhuleni	Qualified	Qualified	–	Qualified
eThekwini	Unqualified	Unqualified	Unqualified	Unqualified
Nelson Mandela Bay	–	Qualified	Qualified	Qualified

Key challenges

- Growing grant dependence partially due to underpricing of utility services
- Extremely high consumer debtors
- Absence of 'business' approach to managing utility services in many metro's, which impacts on the sustainability of the services

Transfers to LG have been expanded and transformed

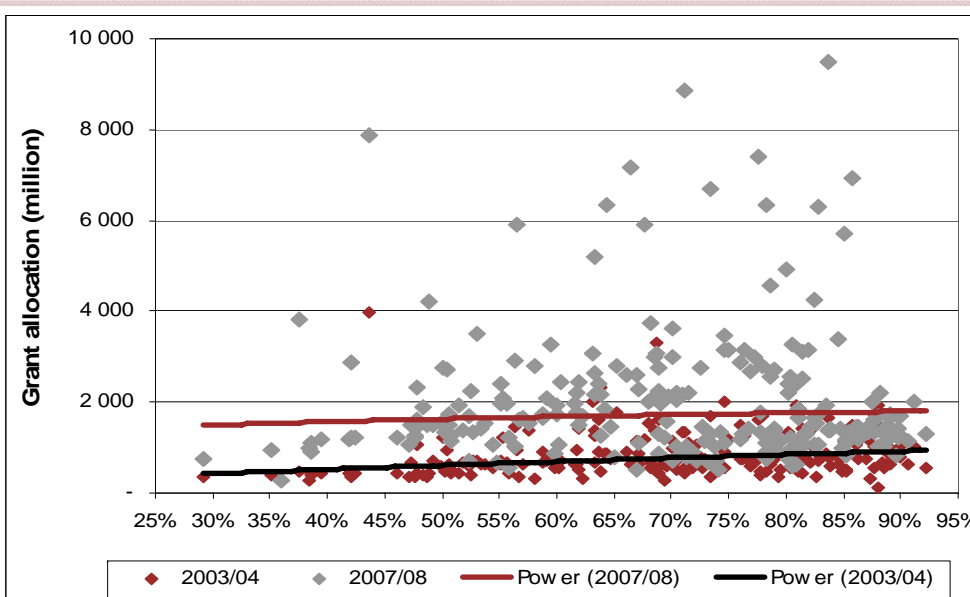
3 policy roles of transfers

- Addressing the structural imbalance between revenue capacity and expenditure responsibilities
- Supporting national priorities
- Establishing incentives for good governance and building capacity

Share of national revenue increasing

- Real growth in LG equitable share, and very rapid growth in conditional grants
- Leading to greater grant dependence

Increasingly equitable



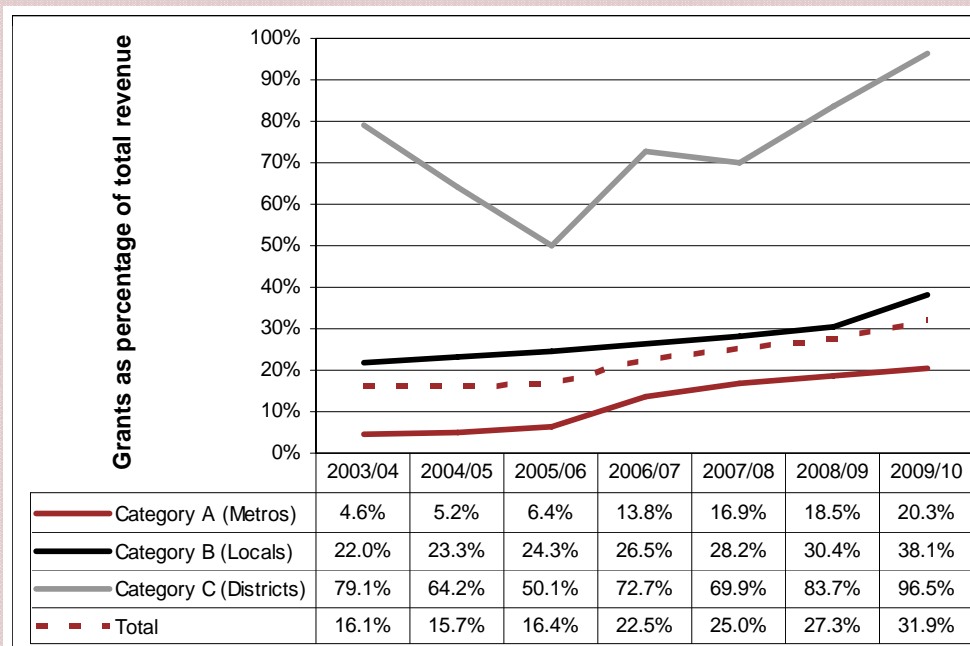
Total grant allocation per household as percentage of population in poverty, 2003/04 – 2009/10

Streamlined and predictable

- DoR Act provides multi-year allocations and clarifies conditions and reporting rules

..... but problems remain

Weak
municipal
own revenue
effort



Average
level of grant
dependence
by category
of
municipality,
2003/04-
2009/10

Poor grant
programme
performance

- Weak design, implementation and evaluation procedures limit the impact of grants on development outcomes
- Smaller grant programmes are particularly problematic
- Use of grants to strengthen capacity remains fragmented

Policy
challenges

- Coordination between grants remains weak, esp for built environment (housing) and capacity support initiatives
- Ongoing pressure for indirect and / or specific purpose transfers
- Grants weaken local accountability

Significant scope exists to access private finance

Capital budgets have grown but remain inadequate

- On average, capital budgets grow by 16% between 2003/04 and 2009/10
- Municipal capital expenditure is lagging behind the growth in economic activity
- Municipalities have budgeted only R7.3 billion for repairs and maintenance of capital assets in 2009/10
- Service delivery backlogs remain high

Scope exists for further growth in private capital funding

- Trends in municipal capital budgets reveal that national transfers are the major source of finance between 2003/04 – 2009/10.
- External loans contributed 27.6% as a funding source to the municipal capital budgets between 2003/04 – 2006/07. This is expected to decline to 18.5% between 2007/08-2009/10

Estimated scope for additional borrowing

- R30bn over the next three years to boost infrastructure investment
- 6 metros and 21 secondary cities are well positioned to increase their borrowing

Various sources of private finance are available

Development charges

- Off-balance sheet financing linked to the development of land and buildings
- Costs are recouped directly from the property owners benefiting from such developments

Public Private Partnerships

- A model for risk sharing between a municipality and its private sector partners.
- Private partners raise debt and equity to finance the project

Long term loans

- Long term loans amounted to R15.6bn in June 2007
- Grew by 13% per year on average between 2003/04 and 2009/10
- Lending institutions: DBSA, INCA, banks & pension funds

Municipal bonds

- Form of long-term borrowing
- There is a pool of lenders which should reduce interest costs
- Need to pay attention to credit rating
- COJ R5.7bn and CTN R1bn

... and new opportunities to attract private finance are emerging

New opportunities

- National government is reducing its debt stock over the 2008 MTEF. This creates opportunities for financially sound municipalities to raise funds on private capital markets
- COJ and CTN have set precedents for other metros and large local municipalities to take advantage of lower debt costs associated with bond issues rather than long term loans

But constraints remain

- Growth in conditional grants to fund capital are reducing municipalities' incentive to explore alternative financing mechanisms for infrastructure
- Despite the growth in capital grants, municipalities continue to under spend, showing a lack of proper planning and capacity
- DBSA should focus on lending to municipalities that are not credit worthy, rather than competing with private lenders
- SA municipal bond market needs to mature

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Water services have seen significant growth in access and expenditures

Access to basic water and sanitation services improved

- Access to water increased by 4.1% from 2001 to 2007
- Access to flush-toilets increased by 6% from 2001 to 2007
- 650 416 more households received FBW in 2006 than 2005
- 264 804 more households received FBSan in 2006 than 2005

Municipal water expenditure increases from R7bn in 03/04 to R13bn in 09/10

- Operating expenditure makes up 57% of total municipal water expenditure for 2006/07
- Capital expenditure increased at a faster pace than operating expenditure – 5.1% as opposed to 1.7% in real terms
- 69% of water expenditure occurs in 27 largest municipalities
- Increasing complementary investments in water resources infrastructure (eg De Hoop Dam)

Municipal sanitation expenditure increases from R2bn in 03/04 to R3bn in 09/10

- Operating expenditure makes up 16% of total municipal sanitation expenditure for 2006/07
- Capital expenditure decreased in real terms by 5.7% while operating expenditure increased by 1.7% in real terms over period
- 61% of sanitation expenditure occurs in the 27 largest municipalities

... but sector faces important challenges

Water resources - concerns with quality and availability

- South Africa is a water scarce country
- Division of country into catchment-based water management areas to facilitate better management of water resources
- Outbreaks of cholera and typhoid in Eastern Cape, Gauteng and KwaZulu-Natal raise concerns about water quality

Asymmetric water and sanitation provision requires

- Need to clarify responsibilities between local and district municipalities
- Improved alignment of funding allocations with municipalities responsible for the actual delivery of the water and sanitation functions

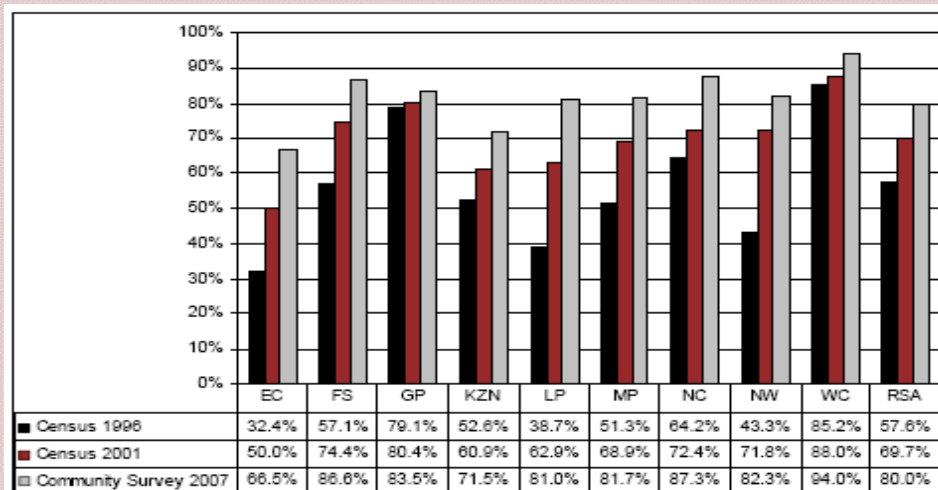
Improved management of water service provision necessary

- Addressing and improving water quality
- Addressing water losses
- Increased investment in new and existing water infrastructure
- Increasing water and sanitation tariffs
- Municipalities to ring-fence water and sanitation services

Similar trends are evident in electricity distribution

Household access to electricity improved

- 10% more households had access to electricity in 2007 than in 2001
- 360 000 more households received free basic electricity in 2006 than 2005



Percentage of households using electricity for lighting by province

Expenditure increased from R14bn in 03/04 to R23bn in 09/10

- Represents a 7.4% average annual growth between 2003/04 and 2009/10
- Operating expenditure makes up 83% of total municipal electricity expenditure for 2006/07
- Operating expenditure increased at a faster pace than capital investments – 2.3% as opposed to 1.2% in real terms
- 84% of electricity expenditure occurs in 27 largest municipalities

.... but challenges are not confined to electricity generation

Generation challenges

- Eskom's capital investment programme accelerated: R343bn over next 3 years, with 2008 Budget providing for R60bn loan from government
- Eskom's electricity tariff needs to increase to the long run cost of supplying electricity, with special protection afforded to poor households
- Eskom's build programme is being supported by demand side management and electricity conservation programmes
- 2008 Budget allocates R2bn to fund generation from renewables, co-generation and electricity efficiency
- Eskom and larger municipalities to ensure 10% reduction in consumption

Distribution challenges

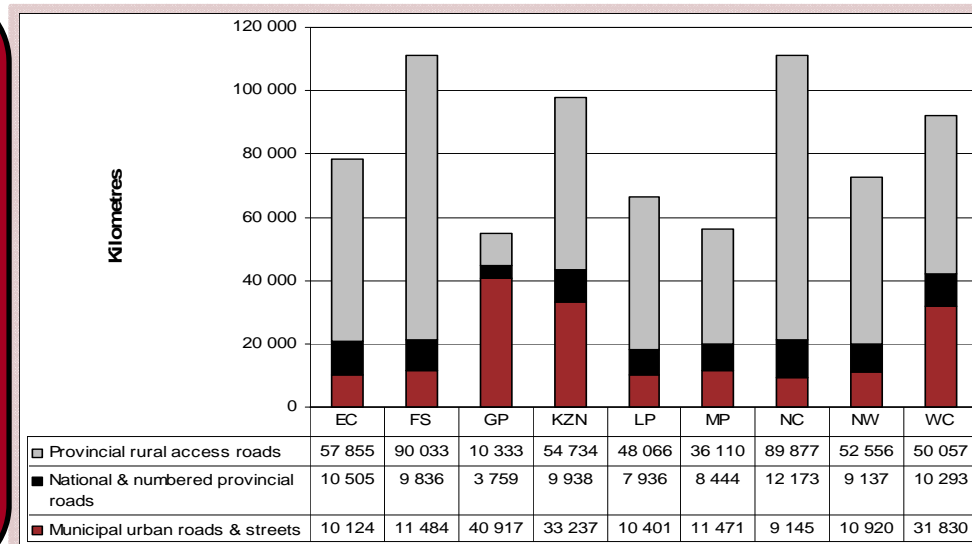
- Efficiencies in distribution (EDI) sector possible
- Municipalities to ring-fence electricity departments
- Increased investment in new and existing electricity infrastructure
- Addressing non-technical electricity losses
- Legislative reforms to enhance regulation
- Pace of EDI restructuring needs to be accelerated

Pricing challenges

- Price of electricity needs to increase to the level of the cost of new generation, so as to finance Eskom's investments and facilitate IPP entrants into sector
- Need to protect poor households from price increases, eg through use of stepped tariffs

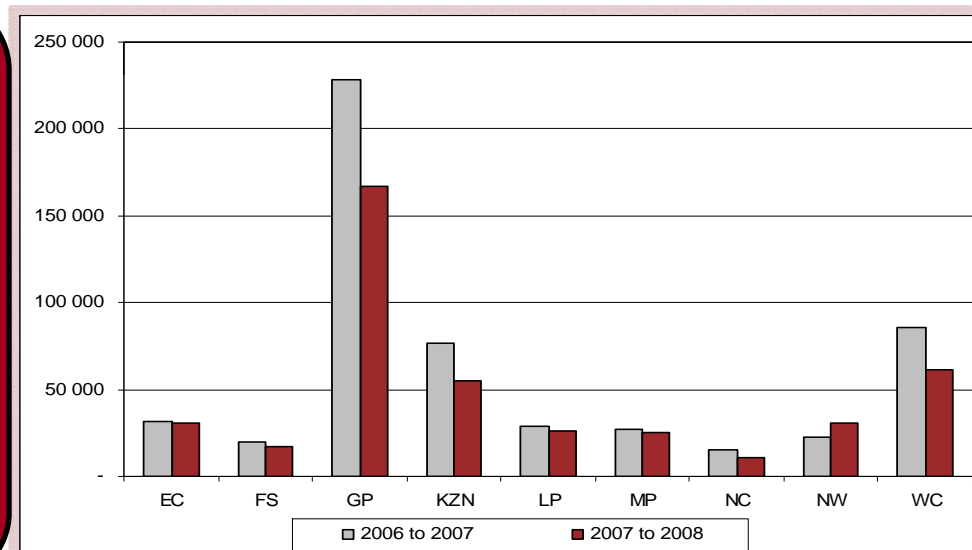
Municipal roads are coming under increasing pressure

Significant portion of public roads are managed by municipalities



Estimated length of road network by category per province

Growth in car registration



Number of new vehicle registrations per province, Feb. 2007 – Feb. 2008

22% increase in number of heavy vehicles registered

Current road investment is insufficient, and is most acutely felt in the metros

Capital expenditure

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
R thousands		Outcome		Estimate	Medium-term estimates		
City of Cape Town	154 178	109 439	213 589	193 251	550 039	608 872	658 644
City of Johannesburg	349 300	342 303	276 901	298 033	285 862	314 000	317 000
City of Tshwane	166 294	177 087	228 273	234 192	605 913	780 910	574 372
Ekurhuleni	178 273	303 884	319 010	397 391	323 016	346 350	266 430
eThekweni	367 774	466 655	254 859	154 580	211 712	240 403	203 300
Nelson Mandela Bay	156 223	226 801	148 023	294 301	526 025	599 921	326 110
Total	1 372 042	1 626 169	1 440 655	1 571 748	2 502 567	2 890 456	2 345 856
<i>Percentage growth (average annual)</i>		2003/04 – 2006/07			2007/08 – 2009/10		
City of Cape Town		7.8%				9.4%	
City of Johannesburg		-5.2%				5.3%	
City of Tshwane		12.1%				-2.6%	
Ekurhuleni		30.6%				-9.2%	
eThekweni		0.0%				-2.0%	
Nelson Mandela Bay		23.5%				-21.3%	
Total		4.6%				-3.2%	

Metro roads infrastructure expenditure, 2003/04-2009/10

Maintenance expenditure

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
R thousands		Outcome		Estimate	Medium-term estimates		
City of Cape Town	83 298	181 550	220 675	241 536	303 902	316 970	331 234
City of Johannesburg	–	5 104	7 310	6 812	6 407	6 727	7 064
City of Tshwane	166 585	187 215	273 531	283 680	220 614	243 030	263 468
Ekurhuleni	90 224	91 587	126 073	123 096	186 449	298 066	316 455
eThekweni	367 774	466 655	254 859	181 535	313 327	334 327	422 125
Nelson Mandela Bay	67 846	72 304	76 323	92 865	99 684	104 606	109 820
Total	775 727	1 004 415	958 771	929 524	1 130 383	1 303 726	1 450 166
<i>Percentage growth (average annual)</i>		2003/04 – 2006/07				2007/08 – 2009/10	
City of Cape Town		42.6%				4.4%	
City of Johannesburg		0.0%				5.0%	
City of Tshwane		19.4%				9.3%	
Ekurhuleni		10.9%				30.3%	
eThekweni		-21.0%				16.1%	
Nelson Mandela Bay		11.0%				5.0%	
Total		6.2%				13.3%	

Metro roads maintenance expenditure, 2003/04-2009/10

Municipalities need integrated response

Short term

- Increased investment in both maintenance and extension of road infrastructure
- Improved institutional coordination mechanisms, and fine-tuning of functional and fiscal assignments
- Establishment of transport authorities in metros

Medium term

- Integrated public transport investments, supported by national grants particularly those linked to the 2010 FIFA World Cup
- Need to plan for the development of integrated human settlements to reduce demand for transport

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Municipalities have the critical role in managing the built environment

Complex institutional arrangements makes coordination difficult

- Fragmented nature and definition of planning functions
- Poor co-ordination between sectors
- No periodic review of planning frameworks
- Objections and appeals go to court
- Lack of mechanisms to prevent corruption

Need for effective management of planning function

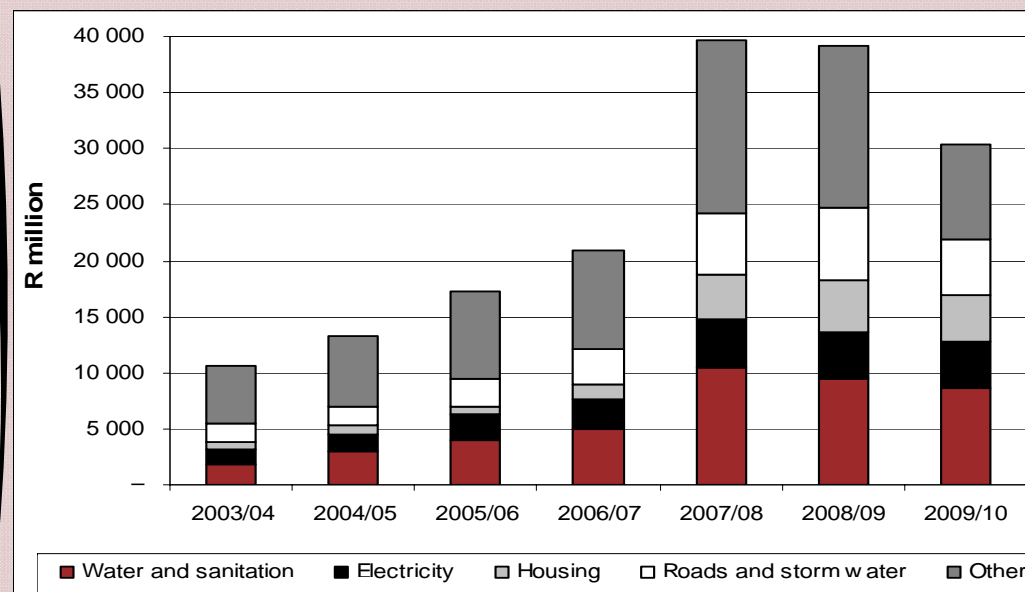
- Robust municipal asset management, including municipal land
- Capacity to plan and influence spatial form of urban areas
- Capacity to direct private development in line with the spatial plan

Demand for municipal investment in the built environment

- Address backlogs in municipal infrastructure needed to deliver services
- Address the need for infrastructure to support economic growth
- Need to maintain existing infrastructure and provide for replacement

Huge investment demands not being met

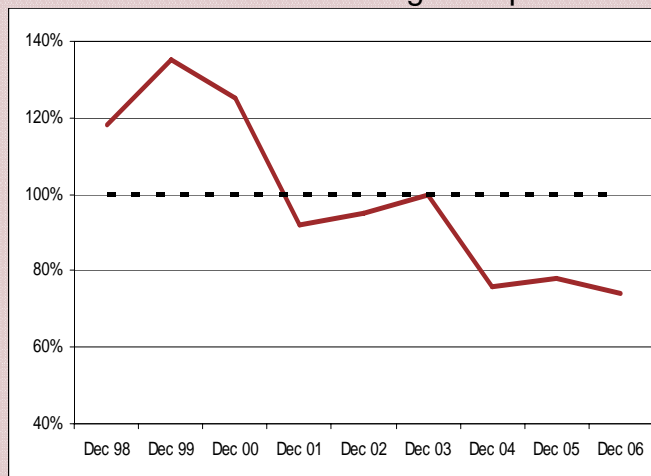
Municipal capital expenditure has risen



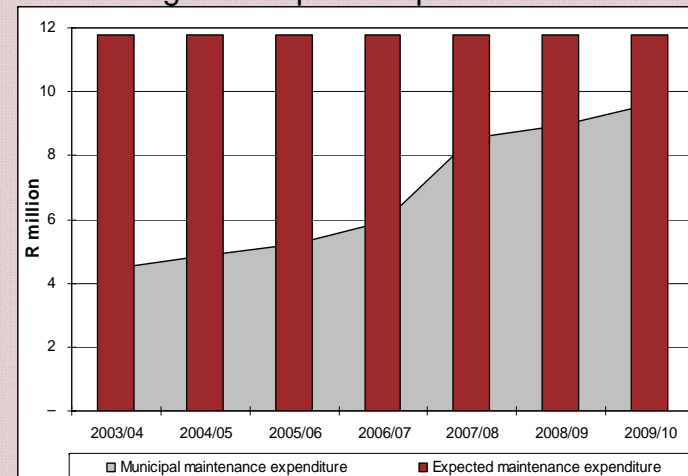
Municipal infrastructure expenditure by sector, 2003/04-2009/10

This is insufficient as backlogs have been compounded over time

Municipal capital expenditure as percentage of total value of buildings completed



Municipal maintenance expenditure against required expenditure



Inconsistent sector policies pose a significant problem

Spatial planning

- Multiple pieces of apartheid-era legislation govern spatial planning
- Further complicated by post-1994 legislation
- Confusing, multi-track processes for approving development plans
- Overlapping mandates between national government provinces and local governments

Coordination of public investment

- Excessive demands for intergovernmental coordination at operational level
- Functional assignments, particularly with respect to housing and public transport, confuse accountability between provincial and local government

MFMA provides the legal framework to...

Modernise budgeting and financial management

- Budgeting and financial reporting
- Accounting reforms
- Asset management
- Supply chain management

Improve financial governance

- Clarifying and separating roles and responsibilities of mayor, executive and non-executive councilors vis a vis those of municipal officials

Maximise municipalities' capacity to deliver services

- Attending to issues of effectiveness and efficiency
- Dealing with corruption

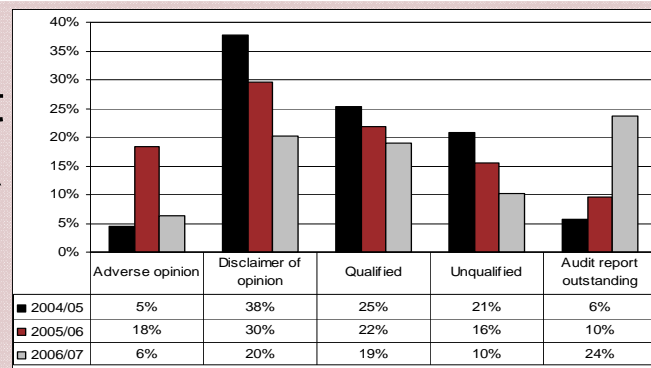
Set out the accountability cycle

- Linkages between IDPs, budgets, SDBIPs, in-year reports, annual financial statements, annual reports, oversight reports and audit reports

Management is improving in response to financial management reform programme

Reforms
essential for
accountability

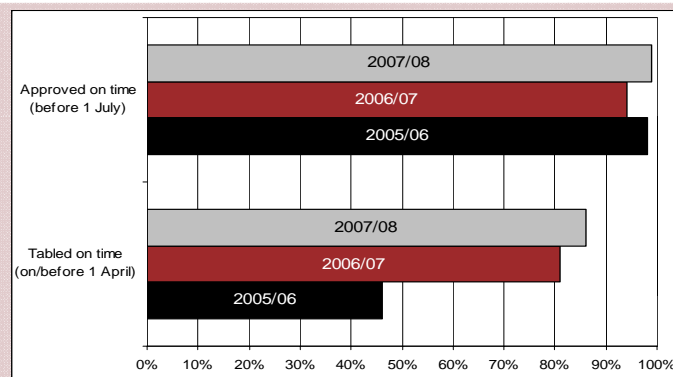
Improving audit
outcomes, off a
low base



Audit
opinions for
all
municipalities
2004/05-
2006/07

Improved
budgeting

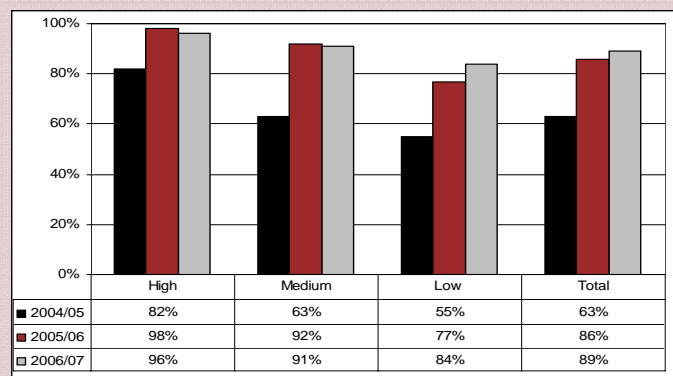
More timely
budget
preparation



Municipalities
that tabled
and approved
budgets on
time
2005/06-
2007/08

Improved
reporting

More timely in-
year reporting



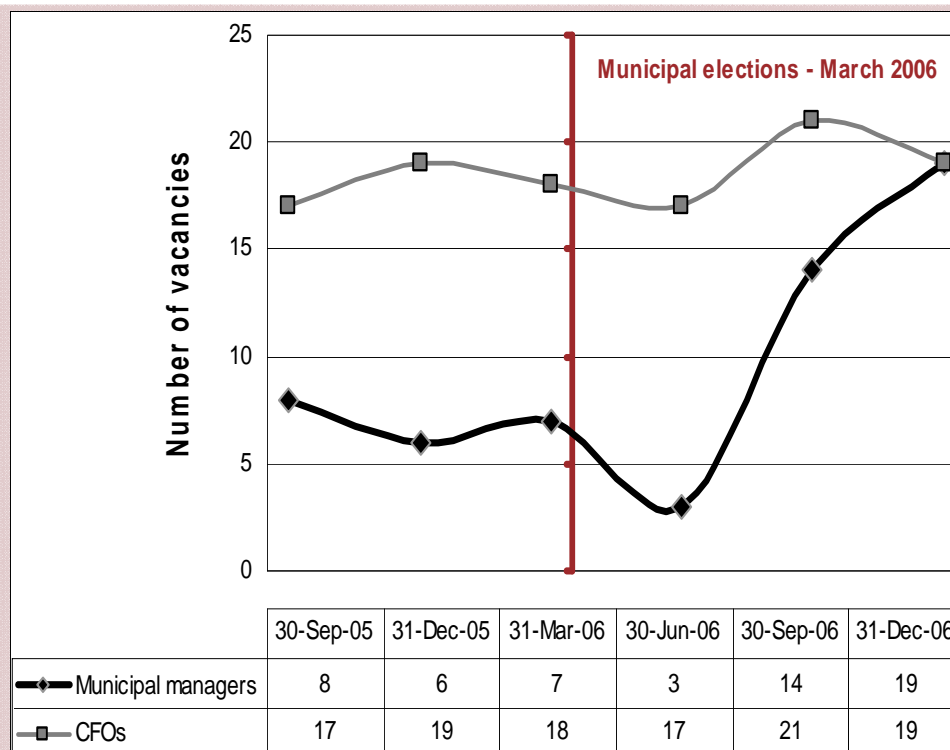
In-year
reporting by
municipalities
in terms of
section 71 of
the MFMA
2004/05-
2006/07

Progress with reforms ...

Helped by
various
capacity
building
initiatives

- Finance management grant to support rollout of MFMA reforms
- Technical assistance – 41 municipalities assisted with implementing reforms
- Internship programme – 222 municipalities have appointed interns

Hindered by
instability in
senior
management



Vacancies for
municipal
managers and
chief financial
officers at the
time of municipal
elections, March
2006 (shown as
red line) per
quarter

...efforts going forward will focus on...

MFMA implementation planning

- Municipalities to review and update MFMA implementation plans
 - establish a MFMA Steering Committee
- Establish Budget and Treasury Office with appropriately skilled personnel
- Timely publication of national, provincial, district allocations to municipalities

Building institutional capacity

- Finalise internal delegations and assignment of responsibilities for all MFMA duties
- SCM implementation (including establishment of SCM committees)
- Establish functional Internal Audit Units and Audit Committees
- Upgrade and automate systems to deliver reports and improve data quality
- Assist to resolve financial problems in municipalities including preparation of recovery plans

Budgeting and financial reporting

- Improve preparation and implementation of multi-year budgets according to uniform norms and standards (quality, content, consultation on budgets)
- Improve quality and timeliness of internal and external reporting on budgets, finances, SDBIP, in-year, annual and oversight reports
- Regular update and publication of all information on municipal websites in accordance with section 75 of MFMA
- Implement Accounting Reforms - preparation and submission of quality, timely AFS and address audit findings
- Assist in facilitating payment for services of all provincial departments to municipalities

Building personnel capacity

- Grow graduate internship programme in all municipalities and appointment of skilled personnel
- Report and complete skills assessment as required by the MFMA Competency regulations
- Attend structured and accredited training courses consistent with MFMA competency regulations

Staff are a major municipal asset

Significant number of employees

- Over 200 000 jobs, or 1.6% of total SA employment
- Accounts for 30% of operating expenditures

Growing expenditures not resulting in more job

- Personnel expenditure increases from R22bn in 2003/04 to R38bn in 2009/10
- Employment declined by 1.2% or 2500 employees between 2005 and 2006
- Vacancies rose from 19.7% to 21.9% between 2005 and 2006

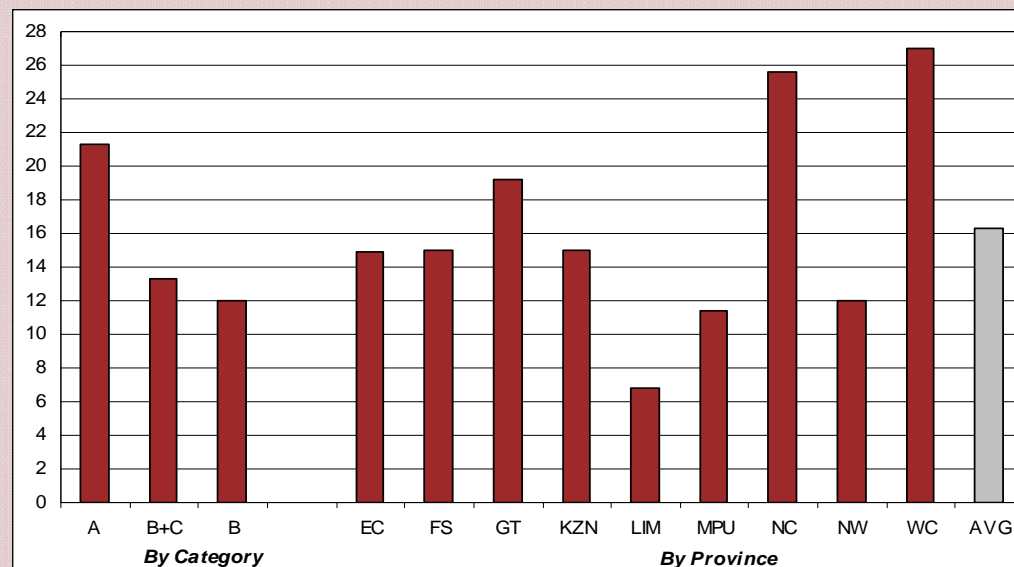
Cost per employee rising faster than wage increases

Rand	2005	2006	% growth
By category of municipality			
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%

Average cost per employee, 2005 and 2006

Personnel policies require careful management

Getting the personnel mix right



Number of municipal workers per 1 000 households, 2006

Filling key positions

Section 57 posts	2006/07			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%
Total	1 546	1 318	14.7%	1 668	1 387	16.8%

Filled and vacant posts for section 57 managers, 2006 and 2007

Personnel policies require careful management

Supporting
job
creation

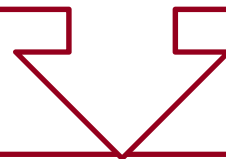
Province	Number of projects	2005/06	Gross number of work opportunities created	Number of projects	2006/07	Gross number of work opportunities created
		Expenditure (including professional fees) (R million)			Expenditure (including professional fees) (R million)	
Eastern Cape	1	1	171	92	324	12 283
Free 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
Total	313	372	43 688	634	1 808	65 205
<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>

Managing
costs and
increasing
capital
intensity

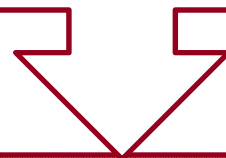
- Increasing capital intensity of operations
- Minimum wage in municipal sector increased from 12% above national average in 2005 to 41% above in 2007
- Is the higher minimum wage being paid for by the shedding of low level jobs – facilitated by mechanisation and outsourcing?
- Requires a collective response – where all role-players give priority to job creation

Outline

Key findings of the review



A summary of the chapters



Conclusion

Uses of this *Review*

Contains
extensive data
and analysis

- Treasury has dramatically increased the availability of raw data on municipal finances
- Treasury welcomes alternative and / or additional analysis of issues

Provides a
starting point
for legislative
oversight

- Range of data provided on national programmes and municipal performance
- Aggregate and average figures should be compared with individual municipal performances

National and
local policy
must respond

- Significant policy challenges ahead, in almost all sectors, at both municipal and national level
- Analysis and debate must deepen to ensure effective response

Thank you