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SACN REPORT

## Stark warning over municipal finances amid ballooning staff costs

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GROWING employee-related and bulk purchase costs and rising consumer debt in the country's leading municipalities have seen the finances of these cities come under severe strain.

The bleak picture of the finances of cities was painted by SA Cities Network (SACN) in its latest report.

The 166-page report looked at the performance of the country's nine major cities, including Durban, Pietermaritzburg, Cape Town, and Johannesburg.

Titled *State of City Finances*, the report detailed and analysed municipal administrative terms from 2011-2016 and 2016-2021.

The report noted that between 2016

and 2021, employee-related costs grew at an average of 10.3% for the cities combined – significantly above inflation – pointing out that the costs were the second fastest growing expenditure item after debt impairment.

"The increases in employee-related costs are not sustainable at a time when revenue growth is under pressure."

Poor management of overtime costs and an unwillingness to withdraw scarce skills allowances also contributed to the growth of these costs, it said.

In eThekweni, staff head-counts had grown slowly, but the per employee costs grew rapidly in the period 2015-2021.

The issue of rampant overtime costs in eThekweni Municipality has come under the spotlight in the past few years. A recent move by the city to cap overtime claims was met with

fierce resistance by some departments.

Aside from the grants received from provincial and national governments, there was an overall stagnation in own-funded infrastructure projects by cities, the report noted. This suggests cities are under-investing in economic infrastructure and renewal, placing them in a tenuous position should climate-related disasters continue, it added.

The SACN warned against under-spending on infrastructure, noting recent developments and climate change as warning signs. "It is important to renew and maintain existing infrastructure as it ages. Without such existing infrastructure declines and starts to fail, and it is particularly vulnerable to disasters linked to climate change, as was seen in eThekweni during the 2022 floods. Often this

expenditure is financed by internally generated funds," the report stressed.

Other findings related to the governance of cities included:

- The negative impact of political interference on administrative affairs in municipalities.

- Questionable appointments at senior level in municipalities.

- The impact of unstable municipalities governed by coalitions.

"Despite some successes, the problems facing cities are deeply entrenched. The priorities are not new but the result of not addressing ongoing issues," it said.

"The negative impacts of contested coalitions are immediate, medium and long term," said the report. It cited the inability to pass budgets or function day-to-day, replacement of senior man-

agers when political leaders changed and lack of strategic planning over a longer period as the end result of unstable political landscapes.

Ongoing squabbles created a negative perception of public institutions and those associated with them. "Political interference in the administration erode the trust of communities and business, reducing the city's legitimacy to impose service charges and taxes, and affecting investor sentiment."

It called for accountability from the political leadership in the cities. "Strong, stable leadership is a key metric of success in any organisation, including cities. City leaders must have the appropriate qualifications and experience and be protected from undue political interference in their appointments and management of a city."

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