

**SECTION HR 05**

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**MUNICIPALITY**

**STAFF**

**REMUNERATION**

**POLICY**

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### **STAFF REMUNERATION POLICY**

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## **SECTION HR 05**

### **STAFF REMUNERATION POLICY**

#### **1. Introduction**

The purpose of this section is to clarify the way in which Municipal Managers, Managers accountable to Municipal Managers and all other municipal staff members should be remunerated.

This section does not cover the remuneration payable to Councillors, who are not employees of a Municipality and thus not subject to Labour Legislation or Staff Disciplinary Codes.

Guidelines on the remuneration of managers in Local Government were promulgated in terms of the Municipal Systems Act. It is important to understand that these are guidelines only and that Municipalities are not compelled to pay their Managers in accordance with these guidelines. The guidelines also suggest that a Municipality should develop and adopt a remuneration policy for its Managers.

Besides the guidelines mentioned above, the South African Local Government Association (SALGA), Eastern Cape Branch, is also in the process of attempting to determine how Municipal Managers and Managers reporting to the Municipal Managers should be remunerated in the various Municipalities in the Eastern Cape Province.

It must be borne in mind that employees appointed in terms of Section 57 of the Municipal Systems Act (Municipal Managers and Managers reporting directly to them) are subject to performance contracts and fixed term contracts, in most cases. At the end of their fixed term contracts, they could, therefore, be without work and in order to offset this, they will be remunerated at a higher level than permanent employees less senior to themselves.

In this section we will explain how the guidelines promulgated in terms of the Municipal Systems Act should be applied. We will also give details of SALGA's present endeavours to determine salaries of Managers in Municipalities.

Details will also be provided on how all other staff members (excluding Municipal Managers and Heads of Department) have their salaries determined for them on an annual basis.

## **2. Previous System for Remunerating Municipal Staff Members**

The remuneration of staff in the municipal service was previously regulated by the provisions of the Remuneration of Town Clerks Act. This Act has not been repealed. In terms of this Act, a Remuneration Board set salaries payable to Town Clerks in South Africa and the amount paid would depend on the grading of the local authority. Grades were set between 1 and 15, 1 being the smallest and 15 being the largest local authority in South Africa.

There were thirteen factors which determined the size and grade of the local authority, e.g. the number of water meters, number of erven, etc.

Job Descriptions had to be written for each post in the municipal service. These job descriptions were then subjected to a job evaluation process and employees salaries were determined by the post level on which the employee was evaluated, e.g. an employee may be on post level 2 of a grade 5 local authority. This is how salaries were determined.

With the repeal of the Remuneration of Town Clerks Act, a new system had to be put in place, although many aspects of the old system are still applicable.

## **3. Guidelines on Remuneration of Managers in Local Government**

These guidelines apply only to the remuneration of the Municipal Manager and for Managers directly accountable to the Municipal Manager (Section 57 employees). The purpose of these guidelines is to provide a national framework for determining remuneration of managers in Local Government.

### **3.1 Development of Remuneration Policy**

The guidelines suggest that:

3.1.1 A Municipality should develop and adopt a remuneration policy for its Managers, which policy must be consistently applied in determining remuneration for new and existing Managers in Local Government.

3.1.2 The remuneration policy should be based on the following principles:

3.1.2.1 Remuneration must be based on the total cost of employment rather than salary plus benefits

- 3.1.2.2 A Manager may draw the full amount of the total cost of employment or allocate some of it to employee benefit funds
- 3.1.2.3 The employer will not fund any current or future additional employee benefits
- 3.1.2.4 The system of remuneration will be two tiered, i.e. firstly, the cost of employment based on role size (the relative size of the job in comparison with other managerial positions) and secondly, the reward for meeting or exceeding performance objectives
- 3.1.2.5 The application of the principle of internal equity (this means that the Manager's total remuneration must be comparable with another person in a similar sized post in the Municipality)
- 3.1.2.6 The remuneration policy must be developed as part of an integrated Human Resources strategy and must support the principle of Human Resources development as set out in Section 67 of the Systems Act.

3.1.3 The remuneration policy should include various components which are set out in Clause 3 (3) of the guidelines.

### **3.2 Establishment of a Remuneration Committee**

The guidelines suggest that a Municipality should establish a Remuneration Committee, comprising of Councillors and an independent remuneration expert and the committee should develop a remuneration policy for Managers in accordance with the process outlines in the guidelines.

### **3.3 Process for Determining Remuneration Policy for Managers**

The guidelines suggest that the following process should be applied in determining remuneration for Managers:

#### Clause 5 (1)

The remuneration of Managers should be determined in accordance with the following process:

- a) Develop a role profile for each of the Managerial Positions

- b) Determine the key performance indicators for each Managerial Position
- c) Determine the role size of each of the Managerial Positions
- d) Conduct a survey of remuneration paid to Managers with similar role sizes in the private and public sectors
- e) Develop a pay line for each Managerial Position
- f) Determine the salary range around such a pay line
- g) Identify the factors that may justify the employment of a Manager above the proposed salary range
- h) Determine the formula for performance related pay

The guidelines then give a detailed explanation on how each step in the process of determining a Remuneration Policy for Managers must be undertaken. Details are also given on the determination of performance related pay and on adjustments to the annual remuneration of Managers.

The method of developing a Remuneration Policy for Managers as set out in the guidelines is extremely technical and the circumstances of each Municipality would determine how the policy should be developed. Furthermore, the guidelines require a remuneration expert to be used on the Remuneration Committee.

As the cost involved in using the guidelines as a basis for determining remuneration will be extremely high, most Municipalities in the Eastern Cape Province will probably not be able to afford to apply the guidelines. Other methods of determining remuneration for Municipal Managers and Managers reporting to them should be considered and these will be discussed under paragraph 4 below.

#### **4. SALGA's Present Efforts to Establish a Remuneration Policy for the Payment of Managers in Municipalities**

For the past eighteen months, SALGA has been attempting to develop a framework for a remuneration policy for Municipal Managers and Managers reporting to Municipal Managers.

The framework has not yet been finalised but some of the following areas have been suggested for inclusion:

- 4.1 Remuneration for Section 57 employees should be regulated by a policy to be developed by SALGA.
- 4.2 This policy should include a capping on the maximum of the remuneration package of the Municipal Manager per category of Municipality.
- 4.3 The rest of the employees should be covered by a remuneration policy to be negotiated in the SALGBC.
- 4.4 There should be a combination between market-related salaries that are inclusive of both private and public sector benchmarks and the affordability of the Municipalities, when determining salaries of both Section 57 employees and below.

SALGA has not yet finalised this policy and, at present, Municipalities still have to determine the manner in which their Municipal Managers and Managers reporting to Municipal Managers will be remunerated.

**5. Suggestions on Determining Remuneration for Municipal Managers and Managers reporting to them**

As mentioned, implementing the guidelines promulgated in terms of the Municipal Systems Act will be too technical for most Municipalities to use, bearing in mind that these are guidelines only and do not have to be followed. Furthermore, most Municipalities in the Eastern Cape Province will not be able to afford the services of a remuneration expert to implement the guidelines.

Added to these factors, SALGA has not yet finalised its Remuneration Policy for Section 57 employees. Municipalities, therefore, do not have any definite rules or regulations to follow to determine remuneration for Section 57 employees. However, it is suggested that the following principles be used in determining remuneration for Section 57 employees in a Municipality:

- 5.1 A Municipality should apply a consistent policy for remunerating new and existing Managers
- 5.2 The remuneration should be based on the total cost of employment rather than salary plus benefits
- 5.3 It should be left to the discretion of the Manager as to how his employment costs will be allocated, whether to salary or to benefit funds

- 5.4 Once the total package has been determined, the Municipality will not fund any additional employee benefits
- 5.5 The total package which the Municipality can afford should include an amount to provide for the payment of a performance bonus, if deserving
- 5.6 In determining salaries for Section 57 employees, Municipalities should consider both private and public sector benchmarks of similar positions
- 5.7 AND MOST IMPORTANTLY, the affordability of the remuneration packages by the Municipality must be of paramount consideration
- 5.8 Remuneration paid by other Municipalities of similar size to their Section 57 employees should also be taken in to account

These factors should be used in the interim for determining remuneration payable to Municipal Managers and Managers reporting directly to them. Once SALGA or the Bargaining Council has set definite rules concerning a Remuneration Policy for Section 57 employees, these rules will obviously then have to apply.

## **6. Remuneration of all Other Staff Members (other than Manager)**

The salaries of all other staff members of Municipalities are determined on an annual basis at negotiations at the South African Local Government bargaining Council. This Council comprise of national representatives of the Trade Unions (SAMWU and IMATU) on the one hand, and representatives of the employers (SALGA). SALGA comprises of Councillors from various Municipalities in South Africa, plus full-time appointed officials.

Negotiations are held annually to determine salaries for all Municipalities in South Africa. The implementation date is invariably 1 July of each year. After the negotiations have been concluded and agreement reached between the parties, the provincial branches of the South African Local Government Bargaining Council send out schedules which set out the salaries payable to staff members on each post level, depending on the grading of the local authority.

In order to understand how a particular employee's salary is determined, it will be necessary to ascertain the grading of the local authority and post level of the employee concerned. For example, if an employee works for a Grade 6 local authority and has been evaluated on a post level 5 and is at

the top of his salary scale, the salary for the period 1 July 2002 to 20 June 2003 will be R83 244 per annum.

With implementation of the new job evaluation system which will shortly come into effect, the post levels of employees will, in some cases, change and they may be on a higher post level, with a higher salary. However, they cannot have their salaries reduced if they are downgraded.

A further factor to be taken into account is that a new system of grading Municipalities for staff salary purposes still has to be determined. Once this has been finalised, it too will have an effect on the salaries paid to individual employees.

## **7. Conclusion**

The determination of salaries for municipal staff members, both those at managerial level and other levels, is a dynamic process and changes continually, depending on new grading systems applied, new job evaluations systems implemented and in accordance with the Remuneration Policies for individual Municipalities.

It is essential that Human Resources practitioners familiarise themselves with the latest decisions at Bargaining Council level as well as with any changes in legislation. Payment of the correct salaries to employees is an extremely sensitive issue and one which must be undertaken properly to prevent any staff dissatisfaction or labour unrest.