

# Local Government Councilor Social Protection and Empowerment Plan

## **1. WHY THE NEED FOR A LOCAL GOVERNMENT SOCIAL PROTECTION AND EMPOWERMENT PLAN?**

The municipal elections held in May 2011, saw close to 5000 Councillors not returning for the subsequent term of Municipal Councils for the period 2011- 2016. These councillors served a full term from March 2006 to May 2011. The anticipated adverse economic conditions afflicting those councillors, prompted SALGA to make a submission to both the Commission for the Remuneration of Public Office Bearers and COGTA for a once-off gratuity benefit for non-returning Councillors, motivated as remuneration to bridge the consequent financial constraints of non-returning councillors, whilst making alternative employment arrangements or waiting for their retirement benefits.

Drawing from the experiences of the 2011 local government elections, SALGA has undertaken an initiative to develop a Councillor Social Protection and Empowerment Plan. This is a preventative mechanism to ameliorate the social and economic impact to non-returning councillors post the 2016 and subsequent local government elections.

## **2. OBJECTIVES OF THE SOCIAL PROTECTION & EMPOWERMENT PLAN**

The objective of the Plan is to allow non-returning councillors' access to information which:

- Educates them on personal financial and wealth management and planning.
- Enables participation in existing enterprise development and skills development programmes and initiatives.
- Inform councillors of the provision for the once off gratuity payments to be made to non-returning councillors post elections the 2016 municipal elections and to confirm the specific aspects included in the SALGA submission.

## **3. SOCIAL PROTECTION & EMPOWERMENT PLAN PROGRAMMES**

The programmes have been developed in a manner that will assist non- returning councilors to:

- Make informed decisions with regards to their pension, gratuity pay and other savings.
- Understand and apply sound financial principles with their personal finances.
- Have knowledge of enterprise development and skills development opportunities from which they may benefit.
- Establish/expand a business should they contemplate a business venture.
- Acquire Training and access to Skills Development Programmes.

# PROGRAMMES



## **(A) Financial Management: Investment Management Solutions**

Information that is not readily available to the average person has been collated and packaged into a format that informs and facilitates effective decision making on the part of every councillor on each and every one of the products falling under the categories of the plan e.g. the information is aimed at supporting councillors with information before they consider how to manage their available funds at the end of their term. An important disclaimer in the implementation of the plan is that the role of SALGA is not that of financial advisor but to support councillors when they are required to make important financial decisions. The information tool contains a financial management and investment calculator.

### **Sound Financial Management and Investment Calculator**

- Understanding inflation and how it impacts on investment decisions.
- Understanding the principle of compounded interest and what lessons can be learnt therefrom.
- Tax implications arising therefrom.

The information products developed as part of the tool allow councillors to measure their personal financial circumstances to tailor made scenarios that are backed up by formulas adjusting to inputs made. These products allow for various scenarios including, but not limited to –

- Investment of pension and or gratuity for determinable periods. The information enables councillors to view capital growth against specific assumptions (e.g. average interest rate and inflation). Councillors may adjust the term, investment amount, and compare past performance of available products in South Africa.
- Investment of pension or gratuity with the option to draw them on a monthly basis. The information enables councillors to determine how long their investment will last and how much may be drawn over determinable periods to avoid depletion of the funds before a certain age.

Various elements of the tool have been developed and are incorporated into the investment calculator which can be applied to individual specific needs of a Councilor as follows:

- The tool distinguishes between how to treat pension and gratuity.
- The methodology is aligned to the salary bands applicable to Councilors.
- The tools are very user friendly and interactive
- The developed tools can also be availed to new and current councilors with specific reference to forward planning.


ILLUSTRATION OF THE TOOL:

Financial Management

Entrepreneurial Development

Skills Development

Key Investment Concepts




Investing 101

Understanding Asset Classes

The miracle of compounding


Understanding inflation

### TIME is Compound Interest's best friend



Value of initial investment	R 10 000	enter investment value
Annual interest rate	10%	enter interest rate
Total number of years	25	
Total value of compounded interest*	R 98 347	
Total value of simple interest	R 25 000	
Difference	R 73 347	
Total investment value at the end of period* <small>*at compound interest</small>	R 108 347	





Financial Management

Key Investment Concepts

The miracle of Compound Interest

The benefit of time

Why should I start investing NOW?

## The earlier, the better

As we have seen, the longer you save/invest, the more interest you earn.

You do not need to wait until you have more money - since investing now gives you the benefit of time and compound interest.

Below shows the benefit of investing/saving from a younger age/




Starting age	25	30	40
Annual Investment	R 4 800	R 4 800	R 4 800
Total investment over years	R 192 000	R 168 000	R 120 000
Annual interest rate	6%	6%	6%
Number of years	40	35	25
End value at 65 years	<b>R 742 857</b>	<b>R 534 887</b>	<b>R 263 350</b>

Financial Management

Entrepreneurial Development

Skills Development

Pension Fund



Retirement Annuities

Pension vs Provident Fund

Preservation vs Retirement Annuity

Mistakes to avoid

Regulation 28

Post Retirement Decisions

Examples

Tax Free Savings Accounts

Retirement Reform

### Investment - Preservation Example

Given that 2015/16 councillor's salary bands are the following:

Your Salary Band	Band 1	R 482 375	per annum
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**Saving during current employment**

As a councillor, you invest 15% of your basic salary into a pension fund

At the end of your 5 year term, the amount you have contributed towards your pension is

And yet, at the end of the 5 years, your pension fund has a value of

R 72 356	per annum
R 361 781	
R 459 668	

You therefore decide to

**Invest your money in a PRESERVATION FUND**

Assuming you make **no additional contributions**

At the end of	5	years	R 810 092
At the end of	10	years	R 1 427 660
At the end of	15	years	R 2 516 024
At the end of	20	years	R 4 434 094

Financial Management

Pension Fund

Post Retirement

Preservation Examples

## (B) Enterprise Development and Skills Development

In the areas of Enterprise Development and Skills development particular focus has been given to existing mechanisms of support as well as a possible role to be played by SALGA to facilitate skills development in targeted areas which are relevant to society and industry. These have been considered against certain observations such as that:

- Numerous enterprise development and skills development products and programmes are on offer in South Africa – from both the public and private sector.
- The challenge is to include exiting councillors into those programmes, under circumstances where the role of SALGA is limited to guidance and advice.
- Interviews with stakeholders underpinned the necessity to introduce personal development programmes as part of future induction programmes of incoming councillors.

- Easily accessible platforms have been developed to enable councillors to explore available enterprise development and skills development products and programmes – with entry barriers and hyperlinks to relevant websites.
- With Enterprise Development and Skills Development the focus is on informing exiting Councillors what is available in both the public- and private sector.
- Further consideration needs to be given to identifying entities with whom SALGA may partner to roll-out programmes to benefit exiting Councillors in the areas of Enterprise Development given the plethora of providers and the complexities involved.
- Skills development programmes are in place to cater for councillors who already have enrolled for such programmes to be retained until programme completion even if the period of completion is after the Local Government elections.

Further consideration is being given as part of the Social Plan to introduce programmes for councillors that will make them relevant beyond their role as councillors e.g. corporate governance, social facilitation, how to establish your own business etc.

#### **4. AWARENESS CREATION/OUTREACH PROGRAMME**

SALGA will embark on provincial roadshows to take councillors through the details of the plan and engage on tools created. An important disclaimer in the implementation of the plan is that the role of SALGA is not that of financial advisor but to support councillors when they are required to make important financial decisions.

#### **5. FOR MORE INFORMATION**

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