

## **EXPLANATION OF VARIANCES IN THE 2021 2022 BUDGET**

Communique was received from Provincial Treasury requesting that Municipalities must provide explanations of variances in the budget.

This e-mail is part of the National Treasury and Provincial spheres of Government oversight responsibilities to ensure that Municipalities are managed as effective and efficient organizations that are financially stable and provide sustainable services to the communities.

The aim of this Budget is to ensure the Municipalities ability to meet its obligations, provide basic services to the community and honour all financial commitment within Legislative time frames.

The differences between the 2020/2021 and 2021/2022 Budgets are motivated as follows:

### **Revenue**

#### **Property Rates: R 137 500 000**

Property rates are based on the inflation forecast (3.9%) contained in National Treasuries Budget Circulars 107 and 108 and is circulated on Councils General Valuation Roll implemented on 1 July 2017.

#### **Penalties Imposed and Collection Charges. R 12 500 000**

The Budget provision of R 12.5 million remains the same as 2020 2021 financial year

#### **Service Charges: R 783 026 141**

#### **Electricity: R 679 900 000**

Electricity Bulk Purchases over the past few years that resulted in the decrease in demand as some Consumers (factories) have moved to alternative sources of energy and /or invest in Energy saving equipment.

#### **Water: R 58 817 680**

In an attempt to meet the pressing water challenges of communities and the fact that no financial support for work done in the District Municipalities area of Jurisdiction. The Municipality had to re-calculate the water tariffs to ensure cost recovery without depending on an Equitable Share Allocation from the Water and Sewer Services Authority Mopani District Municipality. The increase of 65% is necessary to recover the cost.

#### **Solid Waste: R 36 507 361**

The Tariff increases are in line with the guideline of 3.9% received from National Treasury.

#### **Sewer Service: R 7 800 100**

The tariff increase are in line with the guideline of 3.9% received from National Treasury.

### **Rent of Facilities and Equipment R 1 170 100**

The rent of other Council properties remain the same as 2020 2021 financial year. The anticipated Operational Revenue is calculated by comparing the annual budgeted amount against the actual mid-year Revenue, and the historic information is also taken into account. The historic information as per the 2019/2020 Annual Financial Statements are:

2019/2020 Budgeted amount	R1 972 100
2019/2020 Actual amount	R1 152 233

The Municipality was advised by Provincial Treasury to adopt a conservative approach when estimating revenue, and the estimate of R1 170 100 is regarded as realistic. A downwards adjustment is there for not necessary

### **Interest earned- Outstanding Debtors: R 23 600 000**

The allocation remains the same as 2020 2021 financial year. As with the other items that remained unchanged, this item was thoroughly discussed and due to the uncertainty caused by the Covid-19 pandemic and accompanying economic restrictions it was resolved to keep the budgeted amount unchanged. This is in line with the increase of 6 percent per annum on the audited actual amount, which is as follows:

2019/2020 Budget amount	R17 000 000
2019/2020 Actual Audited Amount	R19 234 067

### **Licence and Permits: R 917 000**

The allocation remains the same as 2020 2021 financial year. This item was thoroughly discussed and due to the fact that licenses and permits are not a fixed monthly charge but vary from month to month with some once-off payments, it was resolved not to increase the budget on this item. The historic information was also, taken into account as people from all over Limpopo may make use of our service which makes it difficult to estimate.

The historical information as per the 2019/2020 Annual Financial Statements are:

2019/2020 Actual amount	R817 000
2019/2020 Budgeted amount	R1 231 992

### **Income from agency services: R 22 664 291**

The allocation reduced by R36 million the amount will be treated as non-core function

### **Operating Grants and Subsidies: R 464 088 050.**

The operating grants and subsidies are in line with DORA allocations and Seta Grant. Reduction in allocation is affected on equitable share R 70 million

## **Expenditure**

### **Employee Related Cost Salaries: R 387 176 247.**

Salaries have been increased by 7.1% for all employees in the employment of GTM 2021/2022 financial year as recommended by the Budget Steering Committee. Provision has also been made for critical positions that have not been budgeted previously as well as positions that have become vacant during the past 12 months.

### **Remuneration of Councilors**

The Budget Steering Committee resolved to keep the provision of Councilors remuneration unchanged as the provision is based on historical and current information.

Composition of and increases of Councilor's allowances are determined annually by the Minister of the Department of Co-operation and Traditional Affairs (COGSTA) through a Gazette setting out the upper limits of the allowances to Councilor's. The Gazette is normally issued towards the end of December to apply retrospectively from 1 July of that year. The Gazette had not been issued yet. An increase of 4.1% was resolved by the Budget Steering Committee.

### **Depreciation: R 132 970 807**

The provision for Depreciation is based on the assets contained in the asset register and is in line with previous year's performance.

### **Repairs and Maintenance: R 70 157 566**

The project increased by R 4.3 million from previous financial to 2021/2022. Due to Roads, re-gravelling and Energy maintenance

### **Interest Expenses: External Borrowing: R 15 728 808**

The increase in provision for interest expenses on external borrowing is the result of a loan of R 30 million approved by DBSA for Capital projects on Councils electricity network during the 2020/2021 Financial year.

### **Bulk Purchases R 475 400 000**

The calculation of Bulk purchases is based on previous year's performance as well as the guidelines from National Treasury circulars 107 and 108.

### **Contracted Services: R 61 650 438**

The decrease in contracted services is due to In-source of Traffic Enforcement Agency, where the contract lapsed during 2020/2021

### **Grants and Subsidies paid: R 31 778 000**

The provisions for grants and subsidies have been made according to the DORA allocations and SETA grant.

**General Expenditure: R 150 414 851**

The increase of R 13 million in the provision on the 2020/2021 Budget is mainly due to increases in the following items

	2020/2021	2021/2022	Difference
Rental of Office	R 500 000	R 1 500 000	R 1 000 000
Consultation & professional: Land survey	R 1 300 000	R 1 900 000	R 600 000
Legal fees	R 11 574 376	R 20 000 000	R 8 425 624

**Provision for impairment**

Table A4 submitted with the Draft 2021/2022 Budget indicates that R39 million has been provided for debt impairment. It is however confirmed that problems were experienced with the mapping of figures in the Draft Budget, and some of the figures were incorrect and debt impairment is one of these figures. The Municipality confirms that the amount of R39 million has been changed to R70 million in the final Budget schedules which is in line with previous years Audit outcomes.