

## **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 150 886 839**

Property rates are based on the inflation forecast (4.8%) contained in National Treasuries Budget Circulars 112 and 115 and is calculated on Councils General Valuation Roll implemented on 1 July 2017.

#### **Fines, penalties and forfeits. R 12 008 000**

The allocation of R12.0 million was based on the 2020/2021 financial year performance and the fact that the contract of the traffic service provider which was responsible for the speed cameras expired.

#### **Interest earned - external investments. R 4 500 000**

The allocation of R4.5 million was based on the 2020/2021 actual receipt for interest revenue on investment

#### **Electricity service charges: R 700 000 000**

Electricity service charges is based on the increase of 8.6 approved by NERSA and the previous year's performance

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

The Tariff increases are in line with the guideline of 4.8 % received from National Treasury and previous year's performance

#### **Solid Waste service charges: R 37 893 774**

The Tariff increases are in line with the guideline of 4.8% received from National Treasury and previous year's performance.

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

The Tariff increases are in line with the guideline of 4.8% received from National Treasury and previous year's performance.

### **Rent of Facilities and Equipment R 800 000**

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 Municipality was advised by Provincial Treasury to adopt a conservative approach when estimating revenue, and the estimate of R 800 000 is regarded as realistic due to the fact that most Covid restrictions are uplifted.

### **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 817 000**

The allocation remains the same as 2021 2022 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.

### **Income from agency services: R 14 664 291**

The allocation was based on the performance of 2020 2021 financial year and the item reduced from previous year budget. The amount of R36 million will be treated as a liability as it represent the amount to be paid over to the department of Transport

### **Operating Grants and Subsidies: R 630 030 000.**

The operating grants and subsidies are in line with DORA allocations and Seta Grant.

## **Expenditure**

### **Employee Related Cost Salaries: R 367 850 617.**

Salaries have been increased by 4.5% for all employees in the employment of GTM 2022/2023 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.

### **Depreciation: R 134 847 579**

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

### **Inventory consumed: R 67 268 118**

Inventory consumed increased from previous financial to 2022/2023. Due additional funds required to maintain the roads electricity maintenance

### **Interest Expenses: External Borrowing: R 14 057 047**

The decrease on provision for interest expenses on external borrowing is the result of redemption amount paid in the previous year and the Interest on loan amount is also based on the amortisation schedule received from the banks for all loans interest payable in one year

### **Bulk Purchases R 466 871 250**

The calculation of Bulk purchases is based on previous year's performance as well as the guidelines from National Treasury circulars 112 and 115.

### **Contracted Services: R 76 920 401**

The increase on contracted services in due to the CPIX increases on fixed term contracts

### **Grants and Subsidies paid: R45 801 506**

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

**General Expenditure: R 150 886 839**

The reduction in the provision on the 2021/2022 Budget is mainly due to the transfer of GTEDA budget of R9.8million to grants and subsidies item as mandated by the Auditor General

**Provision for impairment R 49 600 000**

The increase on debt impairment is based on the methodology recommended by Auditor General where the municipality is required to individual assess consumer debtors and in the previous year, the impairment on debt was based on the probability of consumers owing more than 90 days and this led to the reversal of provision that was already made